



**City of Mbombela  
Audited Annual Financial Statements  
for the year ended 30 June 2019**

# City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

## General Information

### Nature of business and principal activities

The City of Mbombela was established as a Category B municipality as determined by the Demarcation Board in terms of Section 4 of the Municipal Demarcation Act and the Provincial Gazette No 2721. The principal activities of the City are to provide services to communities in a sustainable manner, promoting social and economic development and encouraging the involvement of communities and community organizations in the matters of local government in accordance with Section 152 of the Constitution.

### Members of the Mayoral committee (MMC) and their portfolios

Cllr GS Siwela (Speaker)

Cllr ME Nsimbini (Chief Whip)

Cllr SP Mathonsi (Executive Mayor)

Cllr BN Mdhuli (MMC City Planning and Development)

Cllr AS Mthunywa (MMC Corporate Services)

Cllr PP Nyalunga (MMC Public Safety)

Cllr PV Mashego (MMC Energy)

Cllr C Maseko (MMC Public Works, Roads and Transport and Leader of Government Business)

Cllr LE Nyalunga (MMC Strategic Management Services)

Cllr NE Gecelo - Mkhabela (MMC Financial Management)

Cllr A Kumba (MMC Regional Centre Coordination)

Cllr A Kumba (Acting MMC Water and Sanitation)

Cllr MM Mlimi (MMC Community Services)

Councillor	Ward	Councillor	Ward
Cllr EA Fakomo	1	Cllr MC Mhlanga	25
Cllr GS Siwela	2	Cllr TM Bulunga	26
Cllr DJ Nkosi	3	Cllr DB Nkosi	27
Cllr DD Ngwenyama	4	Cllr SR Masuku	28
Cllr MJ Malomane	5	Cllr TK Nyathi	29
Cllr HB Fakude	6	Cllr BA Nyalunga	31
Cllr SM Banda	7	Cllr KG Ndhlovu	32
Cllr SE Mbuyane	8	Cllr EK Manzini	33
Cllr EM Sebashe	9	Cllr RF Mgwenya	34
Cllr DDT Ngobe	10	Cllr RQ Seepsop	35
Cllr EM Mutobvu	11	Cllr JJ Khoza	36
Cllr BP Nkhoma	12	Cllr NM Maganga	37
Cllr A Thabethe	13	Cllr ST Masha	38
Cllr KM MKhonto	14	Cllr SI Mokoena	39
Cllr T Marshall	15	Cllr LM Sikonela	40
Cllr KA Oliver	16	Cllr LM Bhembe	41
Cllr S Van Der Merwe	17	Cllr MC Nkosi	42
Cllr JB Mashaba	18	Cllr HL Shongwe	43
Cllr DB Mkhathshwa	19	Cllr JJ Mkhabela	44
Cllr LC Sibiya	20	Cllr LB Nkosi	45
Cllr NA Mokoena	21		
Cllr TM Pila	22		
Cllr ME Mhawule	23		

## City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

### General Information

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Cllr NL Lukhele 24

#### Proportional Representative Councillors (PR)

Councillor	Ward	Councillor	Ward
Cllr PP Mbowane	1	Cllr BA Nyalunga	25
Cllr MC Mhlanga	2	Cllr ME Nsimbini	26
Cllr SR Schorman	3	Cllr AS Mthunywa	27
Cllr LT Mlombo	4	Cllr MJ Hlophe	28
Vacant	5	Cllr JV Mhlaba	29
Cllr K Mdhuli	6	Cllr PV Mashego	30
Cllr JM Mazibane	7	Cllr PCW Minaar	31
Vacant	8	Cllr MG Moyana	32
Cllr MM Mlimi	9	Cllr GM Nkambule	33
Cllr EN Sibambo	10	Cllr FS Nkosi	34
Cllr M Mbewe	11	Cllr LM Shongwe	35
Cllr HP Celliers	12	Cllr SP Mathonsi	36
Cllr NE Gecelo - Mkhabela	13	Cllr WP Sibiya	37
Cllr BP Mhlanga	14	Cllr SE Makushe	38
Cllr EG Janse van Rensburg	15	Cllr L Maseko	39
Cllr GCB Anthony	16	Cllr BN Mdlhuli	40
Cllr C Maseko	17	Cllr TG Mabuza	41
Cllr TM Charles	18	Cllr ME Jacobs	42
Cllr LE Nyalunga	19	Cllr A Kumba	43
Cllr LE Siboza	20	Cllr MS Mashele	44
Cllr L Ngwenyama	21	Cllr PV Mkhathshwa	45
Cllr PP Nyalunga	22		
Cllr GS Siwela	23		
Cllr DE Shongwe	24		

#### Audit and Performance Audit Committee

Mrs TH Mbatha	Chairperson
Ms LWS Ngwenya	Member
Mr SM Ndukuya	Member
Ms SL Lubisi	Member

#### Municipal Manager

Mr. WJ Khumalo

#### Acting Chief Financial Officer

Ms. ZP Malaza

#### Registered office

Mbombela Civic Centre

#### Physical address

Civic Centre

# City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

## General Information

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	1 Nel Street Mbombela 1200
<b>Postal address</b>	P.O. Box 45 Mbombela 1200
<b>Bankers</b>	ABSA bank Mbombela 2nd Floor, ABSA Square 20 Paul Kruger Street Mbombela 1201
<b>Auditors</b>	Auditor General South Africa - Mpumalanga 10 Nel Street Mbombela 1200
<b>Telephone number</b>	(013) 759 9111
<b>Fax number</b>	(013) 759 2002
<b>Website address</b>	<a href="http://www.mbombela.gov.za">www.mbombela.gov.za</a>
<b>Enquiries</b>	
Building Plans	(013) 759 2184
Electricity	(013) 759 2231
Water and Sewerage	(013) 759 2580
Customer Care	(013) 759 2025 / 2064
<b>Paypoints</b>	
White River	(013) 751 1176
KaNyamazane	(013) 794 1254
Matsulu	(013) 778 9061
Kabokweni	(013) 796 0227
Hazyview	(013) 737 7346
Mbombela Civic Centre	(013) 759 2025 / 2064
Mbombela - The Grove Riverside	(013) 759 9912 / 9913
Barberton Municipal offices	(013) 712 8800 / 2121
<b>Libraries</b>	
Kabokweni	(013) 796 1082 / 0590
Matsulu	(013) 778 9864 / 9000
Mbombela	(013) 759 2077
Nelsville	(013) 755 4788
White River	(013) 750 9125 / 6039
Victory Park	(013) 759 2089
Hazyview	(013) 737 7220 / 7346
Barberton - Town Library	(013) 712 8800
Barberton - Emjindini Library	(013) 712 8800

# City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

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The reports and statements set out below comprise the audited annual financial statements for the year ended 30 June 2019:

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The following supplementary information does not form part of the audited annual financial statements and is unaudited:

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DBSA	Development Bank of Southern Africa
DME	Department of Minerals and Energy
DWS	Department of Water and Sanitation
EPWP	Expanded Public Works Programme
FMG	Finance Management Grant
GRAP	Generally Recognised Accounting Practice
INEP	Integrated National Electrification Programme
MFMA	Municipal Finance Management Act No 56 of 2003
MIG	Municipal Infrastructure Grant
MSIG	Municipal System Improvement Grant
PAYE	Pay As You Earn
PR Councillor	Proportional Representative Councillor
PTNG	Public Transport Network Grant
R	Rand
SARS	South African Revenue Services

## **City of Mbombela**

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

### **Approval and certification of Annual Financial Statements**

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I am responsible for the preparation of these audited annual financial statements, which are set out on pages 6 to 111, in terms of Section 126(1) of the Municipal Finance Management Act No 56 of 2003 and which I have signed on behalf of the Municipality. The audited annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP), other applicable accounting standards and reporting framework approved by the Accounting Standards Board and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates. These financial statements fairly presents the state of affairs of the municipality, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at 30 June 2019.

I certify that the salaries, allowances and benefits of Councillors, as disclosed in note 38 of these audited annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Co-operative Governance and Traditional Affairs determination in accordance with this Act:

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**Mr. WJ Khumalo**  
**Municipal Manager**

# City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Position

Figures in Rand

Note(s)

2019

2018  
Restated\*

### Assets

#### Current Assets

Inventories	2	27,144,664	19,100,885
Operating lease asset	3	90,708	430,484
Other receivables from exchange transactions	4	31,875,501	33,296,393
Trade receivables from non-exchange transactions	5	117,200,646	89,207,919
VAT receivable	6	114,390,127	87,311,621
Trade receivables from exchange transactions	7	166,097,387	152,360,322
Deposits	8	5,186,819	4,755,819
Current portion of long-term receivables		149,186	758,379
Cash and cash equivalents	9	126,050,715	93,902,792
		<b>588,185,753</b>	<b>481,124,614</b>

#### Non-Current Assets

Investment property	10	330,446,369	332,430,880
Property, plant and equipment	11	7,192,383,732	7,176,416,364
Intangible assets	12	15,505,845	16,126,001
Heritage assets	13	2,301,970	2,301,970
Investments	14	100	18,397,643
Long-term receivables	15	2,531,548	3,792,810
		<b>7,543,169,564</b>	<b>7,549,465,668</b>

#### Total Assets

**8,131,355,317** **8,030,590,282**

### Liabilities

#### Current Liabilities

Current portion of borrowings	16	53,200,621	58,133,948
Finance lease obligation	17	2,818,416	4,639,134
Trade and other payables from exchange transactions	18	1,823,300,990	1,532,298,438
Other payables from non-exchange transactions	19	59,409,902	11,329,165
Consumer deposits	20	40,282,191	36,920,033
Current portion of post employment benefit liability	21	4,270,448	4,330,280
Unspent conditional grants and receipts	22	101,912,901	153,208,828
Current portion of provisions	23	13,022,864	12,135,471
Other financial liabilities	24	3,853,005	4,053,040
		<b>2,102,071,338</b>	<b>1,817,048,337</b>

#### Non-Current Liabilities

Non-current portion of borrowings	16	213,180,419	242,213,202
Finance lease obligation	17		876,609
Operating lease	3	233,676	795,725
Non-current portion of post employment benefit liability	21	165,363,557	144,778,791
Non-current portion of provisions	23	239,337,367	214,125,492
		<b>618,115,019</b>	<b>602,789,819</b>

#### Total Liabilities

**2,720,186,357** **2,419,838,156**

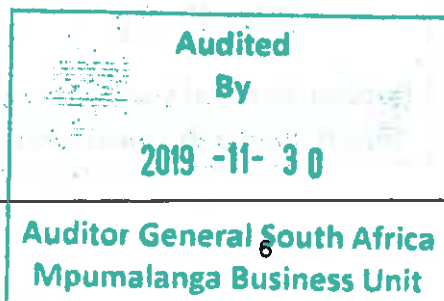
#### Net Assets

**5,411,168,960** **5,610,752,126**

#### Accumulated surplus

**5,411,168,960** **5,610,752,126**

\* See Note 50



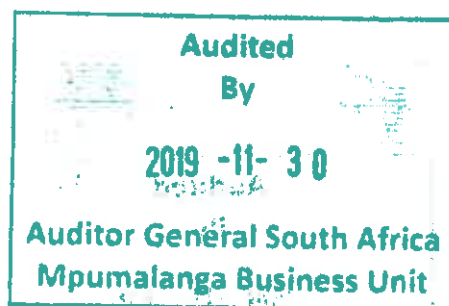
# City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Sale of goods and rendering of services	25	12,420,493	18,345,824
Service charges	26	1,241,828,084	1,088,909,697
Rental of facilities and equipment	27	11,676,380	9,878,092
Agency services	28	42,316,544	38,796,084
Licences and permits	29	3,260,826	3,195,882
Other income	30	50,726,360	22,066,659
Finance income	31	34,410,973	52,506,867
Gain on impairment reversal	32	50,838,131	92,388,517
<b>Total revenue from exchange transactions</b>		<b>1,447,477,791</b>	<b>1,326,087,622</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	33	631,259,690	465,673,448
<b>Transfer revenue</b>			
Government grants & subsidies	34	1,226,255,990	1,219,533,269
Public contributions and donations	35	11,148,491	-
Fines, penalties and forfeits	36	10,321,426	6,629,400
<b>Total revenue from non-exchange transactions</b>		<b>1,878,985,597</b>	<b>1,691,836,117</b>
<b>Total revenue</b>		<b>3,326,463,388</b>	<b>3,017,923,739</b>
<b>Expenditure</b>			
Employee related costs	37	(936,949,440)	(816,855,654)
Remuneration of councillors	38	(39,466,130)	(38,421,823)
Inventory Consumed	39	(50,343,245)	(46,753,875)
Depreciation and amortisation	40	(506,580,755)	(502,874,481)
Finance costs	41	(90,665,330)	(66,271,741)
Operating lease	42	(8,097,143)	(6,797,111)
Bad debts written off	43	(243,757,993)	(252,693,799)
Bulk purchases	44	(746,300,391)	(706,812,207)
Contracted services	45	(627,515,358)	(521,773,210)
Transfers and subsidies	46	(44,373,351)	(31,911,684)
Loss on disposal of property, plant and equipment		(204,405)	(3,547,503)
Operational costs	47	(231,793,014)	(233,867,417)
<b>Total expenditure</b>		<b>(3,526,046,555)</b>	<b>(3,228,580,505)</b>
<b>Deficit for the year</b>		<b>(199,583,167)</b>	<b>(210,656,766)</b>



\* See Note 50



## City of Mbombela

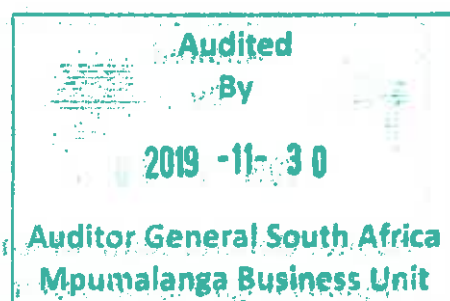
(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

### Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	5,872,542,198	5,872,542,198
Prior year adjustments	(51,133,306)	(51,133,306)
<b>Balance at 1 July 2017 as restated*</b>	<b>5,821,408,892</b>	<b>5,821,408,892</b>
Changes in net assets		
Restated deficit for the period	(210,656,766)	(210,656,766)
<b>Total changes</b>	<b>(210,656,766)</b>	<b>(210,656,766)</b>
	5,610,752,127	5,610,752,127
<b>Balance at 1 July 2018 as restated*</b>	<b>5,610,752,127</b>	<b>5,610,752,127</b>
Deficit for the year	(199,583,167)	(199,583,167)
<b>Total changes</b>	<b>(199,583,167)</b>	<b>(199,583,167)</b>
<b>Balance at 30 June 2019</b>	<b>5,411,168,960</b>	<b>5,411,168,960</b>

See note 50 for accounting error adjustments disclosure.



\* See Note 50

# City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

## Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Property rates		606,606,826	436,144,725
Sale of goods and services		1,035,171,155	878,388,666
Government grants and subsidies		1,174,960,063	1,203,220,736
Finance income		34,410,973	52,506,867
Other income		128,372,058	188,404,264
		<u>2,979,521,075</u>	<u>2,758,665,258</u>
<b>Payments</b>			
Employee costs		(941,752,241)	(825,382,790)
Bulk purchases		(679,382,091)	(629,893,336)
Finance costs		(86,980,080)	(63,147,860)
Other payments		(663,311,108)	(648,049,329)
Grants and Subsidies		(44,373,350)	(31,911,683)
		<u>(2,415,798,870)</u>	<u>(2,198,384,998)</u>
<b>Net cash flows from operating activities</b>	48	<u>563,722,205</u>	<u>560,280,260</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	11	(514,341,026)	(479,727,626)
Proceeds from sale of property, plant and equipment	11	267,666	958,298
Purchase of other intangible assets	12	(620,057)	(1,245,462)
Decrease / (increase) in financial assets		18,397,543	(1,137,499)
Increase / (decrease) in long-term of receivables		1,870,455	(600,828)
		<u>(494,425,419)</u>	<u>(481,753,117)</u>
<b>Net cash flows from investing activities</b>			
<b>Cash flows from financing activities</b>			
Repayment of borrowings		(33,966,110)	(5,358,863)
Finance lease payments		(3,182,754)	(3,129,768)
		<u>(37,148,864)</u>	<u>(8,488,631)</u>
<b>Net cash flows from financing activities</b>			
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>32,147,922</u>	<u>70,038,512</u>
Cash and cash equivalents at the beginning of the year		93,902,792	23,864,280
<b>Cash and cash equivalents at the end of the year</b>	9	<u>126,050,714</u>	<u>93,902,792</u>



\* See Note 50

## City of Mbombela

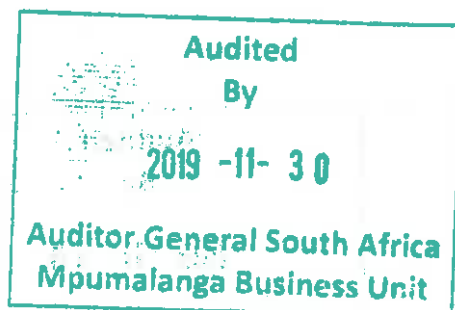
(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

### Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Original budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between adjusted budget and actual	Reference note 64
Figures in Rand						
Deficit before taxation	127,203,876	103,466,210	230,670,086	(199,583,167)	(430,253,253)	
	127,203,876	103,466,210	230,670,086	(199,583,167)	(430,253,253)	



# City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Original budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between adjusted budget and actual	Reference note 64
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Figures in Rand

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Sale of goods and rendering of services	6,534,799	15,000,000	21,534,799	12,420,493	(9,114,306)	64.1
Service charges	1,178,525,029	26,000,000	1,204,525,029	1,241,828,084	37,303,055	
Rental of facilities and equipment	12,694,277	(5,000,000)	7,694,277	11,676,380	3,982,103	64.2
Agency services	194,812,903	(10,000,000)	184,812,903	42,316,544	(142,496,359)	64.3
Licences and permits	3,330,333	-	3,330,333	3,260,826	(69,507)	
Other income	22,039,802	5,000,000	27,039,802	50,726,360	23,686,558	64.4
Finance Income	30,599,280	-	30,599,280	34,410,973	3,811,693	64.5
<b>Total revenue from exchange transactions</b>	<b>1,448,536,423</b>	<b>31,000,000</b>	<b>1,479,536,423</b>	<b>1,396,639,660</b>	<b>(82,896,763)</b>	

##### Revenue from non-exchange transactions

##### Taxation revenue

Property rates	602,531,007	4,000,000	606,531,007	631,259,690	24,728,683	
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##### Transfer revenue

Government grants & subsidies	1,278,053,001	68,476,695	1,346,529,696	1,226,255,990	(120,273,706)	
Public contributions and donations	-	-	-	11,148,491	11,148,491	
Fines, penalties and forfeits	8,362,930	(1,000,000)	7,362,930	10,321,426	2,958,496	64.6
<b>Total revenue from non-exchange transactions</b>	<b>1,888,946,938</b>	<b>71,476,695</b>	<b>1,960,423,633</b>	<b>1,878,985,597</b>	<b>(81,438,036)</b>	

#### Total revenue

<b>3,337,483,361</b>	<b>102,476,695</b>	<b>3,439,960,056</b>	<b>3,275,625,257</b>	<b>(164,334,799)</b>	
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#### Expenditure

Employee related costs	(887,761,680)	(3,000,000)	(890,761,680)	(936,949,440)	(46,187,760)	
Remuneration of councillors	(41,696,435)	-	(41,696,435)	(39,466,130)	2,230,305	
Inventory consumed	(55,567,335)	10,317,222	(45,250,113)	(50,343,245)	(5,093,132)	64.7
Depreciation and amortisation	(540,556,966)	-	(540,556,966)	(506,580,755)	33,976,211	
Finance costs	(40,038,889)	(3,380,454)	(43,419,343)	(90,665,330)	(47,245,987)	64.8
Operating lease	(7,624,408)	1,106,659	(6,517,749)	(8,097,143)	(1,579,394)	64.9
Bad debts written off	-	-	-	(243,757,993)	(243,757,993)	64.10
Debt impairment	(143,664,047)	10,654,528	(133,009,519)	-	133,009,519	64.11
Bulk purchases	(736,187,404)	9,758,993	(726,428,411)	(746,300,391)	(19,871,980)	
Contracted services	(473,761,684)	(105,160,874)	(578,922,558)	(627,515,358)	(48,592,800)	
Transfers and subsidies	(35,309,620)	(2,877,616)	(38,187,236)	(44,373,351)	(6,186,115)	64.12
Operating costs	(248,111,017)	83,571,057	(164,539,960)	(231,793,014)	(67,253,054)	
<b>Total expenditure</b>	<b>(3,210,279,485)</b>	<b>989,515</b>	<b>(3,209,289,970)</b>	<b>(3,525,842,150)</b>	<b>(316,552,180)</b>	
<b>Operating deficit</b>	<b>127,203,876</b>	<b>103,466,210</b>	<b>230,670,086</b>	<b>(250,216,893)</b>	<b>(480,886,979)</b>	
Gain on disposal of assets	-	-	-	(204,405)	(204,405)	
Gain on impairment reversal	-	-	-	50,838,131	50,838,131	
				50,633,726	50,633,726	

Audited  
By  
2019-11-30  
Auditor General South Africa  
Mpumalanga Business Unit

**City of Mbombela**

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

**Statement of Comparison of Budget and Actual Amounts**

Budget on Accrual Basis

	Original budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between adjusted budget and actual	Reference note 64
Figures in Rand						
	<b>742,927,037</b>	<b>-</b>	<b>742,927,037</b>	<b>2,102,071,337</b>	<b>1,359,144,300</b>	
<b>Non-Current Liabilities</b>						
Non - current portion of borrowings	237,701,490	-	237,701,490	213,180,419	(24,521,071)	
Operating lease liability		-	-	233,676	233,676	
Current portion of post employment benefit liability	149,937,201	-	149,937,201	165,363,557	15,426,356	
Non - current portion of provisions	164,853,736	-	164,853,736	239,337,367	74,483,631	64.15
	<b>552,492,427</b>	<b>-</b>	<b>552,492,427</b>	<b>618,115,019</b>	<b>65,622,592</b>	
<b>Total Liabilities</b>	<b>1,295,419,464</b>	<b>-</b>	<b>1,295,419,464</b>	<b>2,720,186,356</b>	<b>1,424,766,892</b>	
<b>Net Assets</b>	<b>7,371,652,886</b>	<b>94,902,429</b>	<b>7,466,555,315</b>	<b>5,411,168,961</b>	<b>(2,055,386,354)</b>	
<b>Net Assets</b>						
<b>Reserves</b>						
Accumulated surplus	7,371,652,886	94,902,429	7,466,555,315	5,411,168,961	(2,055,386,354)	



# City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Original budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between adjusted budget and actual	Reference note
						64

Figures in Rand

### Statement of Financial Position

#### Assets

##### Current Assets

Inventories	119,071,424	-	119,071,424	27,144,664	(91,926,760)	64.13
Operating lease asset	-	-	-	90,708	90,708	
Other receivables from exchange transactions	94,314,893	-	94,314,893	31,875,501	(62,439,392)	64.13
Trade receivables from non-exchange transactions	93,441,458	-	93,441,458	117,200,646	23,759,188	
VAT receivable	-	-	-	114,390,127	114,390,127	64.13
Current portion of long-term receivables	5,020,915	-	5,020,915	-	(5,020,915)	
Trade receivables from exchange transactions	194,000,000	-	194,000,000	166,097,387	(27,902,613)	
Deposits	-	-	-	5,186,819	5,186,819	
Current portion of long-term receivables	-	-	-	149,186	149,186	
Cash and cash equivalents	120,126,883	(24,926,929)	95,199,954	126,050,715	30,850,761	64.13
	625,975,573	(24,926,929)	601,048,644	588,185,753	(12,862,891)	

##### Non-Current Assets

Investment property	-	-	-	330,446,369	330,446,369	
Property, plant and equipment	7,965,683,099	118,528,758	8,084,211,857	7,192,383,732	(891,828,125)	64.13
Intangible assets	12,831,119	1,300,600	14,131,719	15,505,845	1,374,126	
Heritage assets	-	-	-	2,301,970	2,301,970	
Investments	58,432,500	-	58,432,500	-	(58,432,500)	
Investments	-	-	-	100	100	
Long-term receivables	4,150,059	-	4,150,059	2,531,548	(1,618,511)	
	8,041,096,777	119,829,358	8,160,926,135	7,543,169,564	(617,756,571)	

#### Total Assets

	8,667,072,350	94,902,429	8,761,974,779	8,131,355,317	(630,619,462)	
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#### Liabilities

##### Current Liabilities

Current portion of borrowings	29,302,179	-	29,302,179	53,200,621	23,898,442	
Finance lease obligation	-	-	-	2,818,416	2,818,416	
Trade and other payables from exchange transactions	621,855,332	-	621,855,332	1,823,300,989	1,201,445,657	64.14
Trade and other payables from non-exchange transactions	-	-	-	59,409,902	59,409,902	64.14
Consumer deposits	36,427,147	-	36,427,147	40,282,191	3,855,044	64.14
Current portion of post employment benefit liability	-	-	-	4,270,448	4,270,448	
Unspent conditional grants and receipts	26,096,865	-	26,096,865	101,912,901	75,816,036	64.14
Current portion of provisions	29,245,514	-	29,245,514	13,022,864	(16,222,650)	
Current portion of long service award	-	-	-	3,853,005	3,853,005	

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Mpumalanga Business Unit

# City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Original budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between adjusted budget and actual	Reference note
						64
Figures in Rand						
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Property rates	554,328,525	-	554,328,525	606,606,826	52,278,301	
Sale of goods and services	1,084,243,024	27,600,003	1,111,843,027	1,035,171,155	(76,671,872)	
Government grants and subsidies	1,262,998,001	(33,700,001)	1,229,298,000	1,174,960,063	(54,337,937)	
Finance income	28,151,336	(10,000,000)	18,151,336	34,410,973	16,259,637	
Other income	245,530,176	(10,000,000)	235,530,176	128,372,058	(107,158,118)	64.16
	<b>3,175,251,062</b>	<b>(26,099,998)</b>	<b>3,149,151,064</b>	<b>2,979,521,075</b>	<b>(169,629,989)</b>	
<b>Payments</b>						
Employee related costs, remuneration of councillors and suppliers	(2,517,972,385)	120,706,788	(2,397,265,597)	(2,284,445,440)	112,820,157	
Finance costs	(37,164,565)	-	(37,164,565)	(86,980,080)	(49,815,515)	
Grants and subsidies paid	(35,269,620)	-	(35,269,620)	(44,373,350)	(9,103,730)	
	<b>(2,590,406,570)</b>	<b>120,706,788</b>	<b>(2,469,699,782)</b>	<b>(2,415,798,870)</b>	<b>53,900,912</b>	
<b>Net cash flows from operating activities</b>	<b>584,844,492</b>	<b>94,606,790</b>	<b>679,451,282</b>	<b>563,722,205</b>	<b>(115,729,077)</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(599,890,917)	(20,000,000)	(619,890,917)	(514,341,026)	105,549,891	64.17
Proceeds from sale of property, plant and equipment	-	-	-	267,666	267,666	
Purchase of intangible assets	-	-	-	(620,057)	(620,057)	
Decrease in financial assets	-	-	-	18,397,543	18,397,543	
Decrease in non - current receivables	15,000,000	(15,000,000)	-	1,870,455	1,870,455	
<b>Net cash flows from investing activities</b>	<b>(584,890,917)</b>	<b>(35,000,000)</b>	<b>(619,890,917)</b>	<b>(494,425,419)</b>	<b>125,465,498</b>	
<b>Cash flows from financing activities</b>						
Repayment of borrowings	(27,246,692)	(30,000,000)	(57,246,692)	(33,966,110)	23,280,582	64.18
Finance lease payments	-	-	-	(3,182,754)	(3,182,754)	
<b>Net cash flows from financing activities</b>	<b>(27,246,692)</b>	<b>(30,000,000)</b>	<b>(57,246,692)</b>	<b>(37,148,864)</b>	<b>20,097,828</b>	
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(27,293,117)</b>	<b>29,606,790</b>	<b>2,313,673</b>	<b>32,147,922</b>	<b>29,834,249</b>	
<b>Cash and cash equivalents at the beginning of the year</b>	<b>147,420,000</b>	<b>(54,533,721)</b>	<b>92,886,279</b>	<b>93,902,792</b>	<b>1,016,513</b>	
<b>Cash and cash equivalents at the end of the year</b>	<b>120,126,883</b>	<b>(24,926,931)</b>	<b>95,199,952</b>	<b>126,050,714</b>	<b>30,850,762</b>	

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Mpumalanga Business Unit

# City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

## Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and budget s31 of the MFMA)	Final adjustments (i.t.o. council approved policy)	Shifting of funds (i.t.o. MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of adjusted budget	Actual outcome as % of original budget
<b>Financial Performance</b>											
Property rates	602,531,007	4,000,000	606,531,007	-	-	606,531,007	631,258,690	-	24,728,683	104 %	105 %
Service charges	1,178,525,029	26,000,000	1,204,525,029	-	-	1,204,525,029	1,241,828,084	-	37,303,055	103 %	105 %
Finance income	1,740,335	-	1,740,335	-	-	1,740,335	34,410,973	-	32,670,638	1,977 %	1,977 %
Transfers recognised - operational	741,060,700	-	741,060,700	-	-	741,060,700	763,700,929	-	22,640,229	103 %	103 %
Other own revenue	276,633,989	-	276,633,989	-	-	276,633,989	181,560,160	-	(95,073,829)	66 %	66 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>2,800,491,060</b>	<b>30,000,000</b>	<b>2,830,491,060</b>	<b>-</b>	<b>-</b>	<b>2,830,491,060</b>	<b>2,852,759,836</b>	<b>-</b>	<b>22,268,776</b>	<b>101 %</b>	<b>102 %</b>
Employee costs	(887,761,680)	-	(887,761,680)	-	-	(887,761,680)	(936,949,440)	-	(49,187,760)	106 %	106 %
Remuneration of councillors	(41,696,435)	-	(41,696,435)	-	-	(41,696,435)	(39,466,130)	-	2,230,305	95 %	95 %
Bad debts written off	-	-	-	-	-	-	(243,757,993)	-	(243,757,993)	DIV/0 %	DIV/0 %
Depreciation and asset impairment	(540,556,966)	-	(540,556,966)	-	-	(540,556,966)	(506,580,755)	-	33,976,211	94 %	94 %
Finance charges	(40,038,889)	-	(40,038,889)	-	-	(40,038,889)	(90,665,330)	-	(50,626,441)	226 %	226 %
Materials and bulk purchases	(791,754,739)	-	(791,754,739)	-	-	(791,754,739)	(746,300,391)	-	45,454,348	94 %	94 %
Grants and subsidies	(35,309,620)	-	(35,309,620)	-	-	(35,309,620)	(44,373,351)	-	(9,063,731)	126 %	126 %
Other expenditure	(873,161,156)	-	(873,161,156)	-	-	(873,161,156)	(917,953,165)	-	(44,792,009)	105 %	105 %
<b>Total expenditure</b>	<b>(3,210,279,485)</b>	<b>-</b>	<b>(3,210,279,485)</b>	<b>-</b>	<b>-</b>	<b>(3,210,279,485)</b>	<b>(3,526,046,555)</b>	<b>-</b>	<b>(315,767,070)</b>	<b>110 %</b>	<b>110 %</b>
<b>Surplus/(Deficit)</b>	<b>(409,788,425)</b>	<b>30,000,000</b>	<b>(379,788,425)</b>	<b>-</b>	<b>-</b>	<b>(379,788,425)</b>	<b>(673,286,719)</b>	<b>-</b>	<b>(293,498,294)</b>	<b>177 %</b>	<b>164 %</b>

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# City of Mbombela

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Audited Annual Financial Statements for the year ended 30 June 2019

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and budget s31 of the MFMA)	Final adjustments (i.t.o. council approved policy)	Shifting of funds (i.t.o. MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	536,992,301	-	536,992,301	-	-	536,992,301	462,555,061		(74,437,240)	86 %	86 %
Contributions recognised - capital and contributed assets	-	-	-	-	-	-	11,148,491		11,148,491	DIV/0 %	DIV/0 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>127,203,876</b>	<b>30,000,000</b>	<b>157,203,876</b>	-	-	<b>157,203,876</b>	<b>(199,583,167)</b>		<b>(356,787,043)</b>	<b>(127)%</b>	<b>(157)%</b>
<b>Surplus/(Deficit) for the year</b>	<b>127,203,876</b>	<b>30,000,000</b>	<b>157,203,876</b>	-	-	<b>157,203,876</b>	<b>(199,583,167)</b>		<b>(356,787,043)</b>	<b>(127)%</b>	<b>(157)%</b>
<b>Capital expenditure and funds sources</b>											
Total capital expenditure	630,592,306	-	630,592,306	-	-	630,592,306	514,961,077		(115,631,229)	82 %	82 %
<b>Sources of capital funds</b>											
Transfers recognised - capital	536,992,306	-	536,992,306	-	-	536,992,306	-		(536,992,306)	- %	- %
Public contributions and donations	-	-	-	-	-	-	11,148,491		11,148,491	DIV/0 %	DIV/0 %
Internally generated funds	93,600,000	-	93,600,000	-	-	93,600,000	-		(93,600,000)	- %	- %
<b>Total sources of capital funds</b>	<b>630,592,306</b>	<b>-</b>	<b>630,592,306</b>	<b>Audited</b>	<b>By</b>	<b>630,592,306</b>	<b>11,148,491</b>		<b>(619,443,815)</b>	<b>2 %</b>	<b>2 %</b>

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## City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

### Accounting Policies

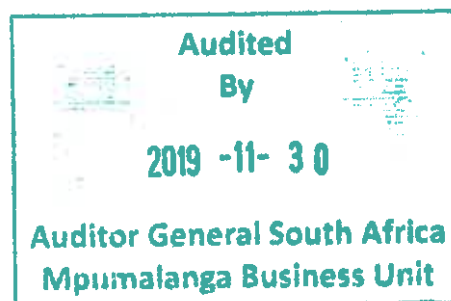
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#### 1. Presentation of Audited Annual Financial Statements

##### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The audited annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These audited annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.



## City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

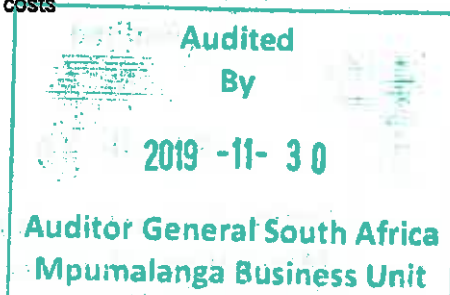
### Accounting Policies

A summary of the significant accounting policies, which have been applied in the preparation of these annual financial statements, are disclosed below. Details of any changes in accounting policies are explained in the relevant policy. Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associates
GRAP 8	Investments in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 11	Construction contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after the Reporting Date
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 21	Impairment of Non-cash generating Assets
GRAP 23	Revenue from Non-exchange Transactions (Taxes and Transfers)
GRAP 24	Presentation of Budget Information in Financial Statements
GRAP 25	Employee benefits
GRAP 26	Impairment of Cash- generating Assets
GRAP 27	Agriculture
GRAP 31	Intangible Assets
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments
GRAP 105	Transfers of Functions Between Entities Under Common Control
GRAP 106	Transfers of Functions Between Entities Not Under Common Control
GRAP 107	Mergers

#### List of effective Interpretations of the Standards of GRAP

IGRAP 1	Applying the Probability Test on Initial Recognition of Revenue (as revised in 2012)
IGRAP 2	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IGRAP 3	Determining whether an Arrangement Contains a Lease
IGRAP 4	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IGRAP 5	Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies
IGRAP 6	Loyalty Programmes
IGRAP 7	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IGRAP 8	Agreements for the construction of assets from exchange transactions
IGRAP 9	Distributions of Non-cash Assets to Owners
IGRAP 10	Assets Received from Customers
IGRAP 11	Consolidations - Special Purpose Entities
IGRAP 12	Jointly Controlled Entities - Non-monetary Contributions By Venturers
IGRAP 13	Operating Leases - Incentives
IGRAP 14	Evaluating the substance of transactions involving the legal form of a lease
IGRAP 16	Intangible assets - Web site costs



# City of Mbombela

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Audited Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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**The following approved guideline on the Standards of GRAP was applied in disclosing information**

Guide 1      Guideline on Accounting for Public Private Partnership.

**The following approved not yet Effective Standard of GRAP was used to disclose information:**

GRAP 20      Related Party Disclosures

**New Standards, Amendments and Interpretations to GRAP Standards Approved But Not yet Effective:**

The following GRAP standards have been approved by the Accounting Standards Board and effective dates have been determined by the Minister as indicated below except where effective date has not been determined. The standards have not been early adopted nor an accounting policy developed by the Municipality. The impact on the application of the new Standards could not be reasonably estimable as at the reporting date and it is not anticipated that these Standards will have a significant impact on the Municipality.

IGRAP 17	Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset.
GRAP 109	Accounting by Principles and Agents 1 April 2019
GRAP 18	Segment Reporting 1 April 2020
IGRAP 18	Recognition and Derecognition of Land

**Standards of GRAP used in developing an accounting policy**

GRAP 32	Service Concession Arrangementr 1 April 2019
GRAP 108	Statutory Receivables 1 April 2019

### 1.1 Presentation currency

These audited annual financial statements are presented in South African Rand, which is the functional currency of the municipality. The figures are rounded off to the nearest Rand.

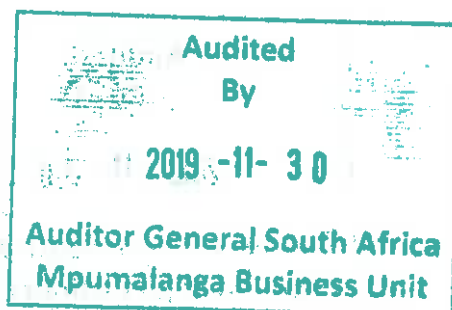
### 1.2 Going concern assumption

These audited annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

### 1.3 Comparative information

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. If a change in accounting policy results from initial application of a standard of GRAP that has specific transitional provisions, the municipality account for the change in accordance with the specific transitional provisions of that accounting standard.

Reclassifications of certain accounts were made in order to comply with the requirements of Municipal Standard Charts of Accounts (mSCOA). The reclassifications have no impact on the net assets value of the municipality.



## **City of Mbombela**

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

### **Accounting Policies**

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#### **1.4 Property, plant and equipment**

##### **Initial recognition and measurement**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period. While there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics:

- (a) they are parts of a system or network;
- (b) they are specialised in nature and do not have alternative uses;
- (c) they are immovable; and
- (d) they may be subject to constraints on disposal.

The cost of an item of property, plant and equipment is recognised as an asset when:

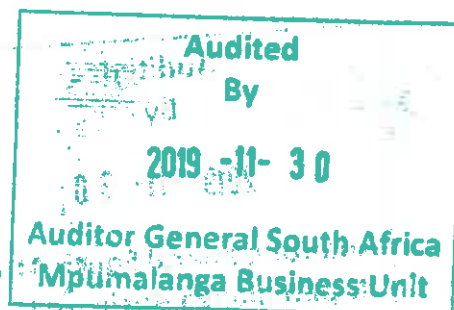
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.



# City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

### 1.4 Property, plant and equipment (continued)

Items such as spare parts, standby equipment and servicing equipment are recognised as property, plant and equipment when they meet the definition of property, plant and equipment.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Costs incurred in using or redeploying an item are not included in the carrying amount of that item.

The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If the payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is recognised in the carrying amount of the item in accordance with the Standard of GRAP on Borrowing Costs.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the Municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

#### Subsequent measurement

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses in accordance with the cost model. Land is not depreciated as it is deemed to have an indefinite useful life.

Where an asset is acquired through a non-exchange transaction, its cost shall be measured at fair value as at the date of acquisition.

Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an item of Property, Plant and Equipment is capitalised when it meets the definition and recognition criteria of an asset.

Where the Municipality has an obligation to dismantle, remove and restore items of property, plant and equipment and the initial estimate was initially included in the cost of an item of property, plant and equipment, any changes in the liability are added to or deducted from, the cost of the related asset in the current period. If there is a decrease in the liability and it exceeds the carrying amount of the asset, the excess is recognised immediately in the statement of financial performance.

If there is a change in a provision for which the asset relates, and the change results in addition to the cost of an asset, the Municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is an indication, the related asset is tested for impairment by estimating its recoverable amount or recoverable service amount and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets or non-cash generating assets. If the related asset has reached the end of its useful life, any subsequent changes in the liability will be recognised in the statement of financial performance.

#### Depreciation

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciation charge for each period shall be recognised in the statement of financial performance unless it is included in the carrying amount of another asset. The annual depreciation rates are based on the following estimated useful lives:

Item	Audited By 2019 -11- 30 Auditor General South Africa Mpumalanga Business Unit	Average useful life
Land and building		
• Land		Indefinite
• Buildings		30-40
• Landfill sites		10-85
Finance lease assets		
• Office equipment		3-15
• Other assets		3-10

## City of Mbombela

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### Accounting Policies

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#### 1.4 Property, plant and equipment (continued)

##### Roads, pavements and stormwater

• Roads, pavement, bridges, and storm water	3-80
• Electrical	3-50
• Water	5-50
• Sanitation	5-50
• Information and communications	3-10
• Solid waste	10-50

##### Community

• Sport and Recreational facilities	25-40
• Parks	Indefinite
• Halls	25-40
• Libraries	25-40

##### Information and communication infrastructure

• Specialised vehicles	5-15
• Other vehicles	5-15
• Office equipment	3-15
• Furniture and fittings	5-15
• Bins and containers	5-10
• Specialised plant and equipment	5-20
• Other items of plant and equipment	5-10
• Emergency equipment	5-10
• Computer equipment	3-10





# City of Mbombela

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## Accounting Policies

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### 1.4 Property, plant and equipment (continued)

Further detail on the useful lives of the categories of assets is detailed on the assets management policy, available for inspection at our offices.

The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate in accordance with Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The municipality assesses at each reporting date whether there is any indication that the municipality's expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revise the expected useful life and/or residual value accordingly.

The residual value of an intangible asset with a finite useful life is assumed to be zero unless:

- (a) there is a commitment by a third party to acquire the asset at the end of its useful life; or
- (b) there is an active market for the asset and:
- (c) residual value can be determined by reference to that market; and
- (d) it is probable that such a market will exist at the end of the asset's useful life

The change(s) are accounted for as a change in an accounting estimate in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

In assessing whether there is any indication that the expected useful life of an asset has changed, the municipality considers the following indications:

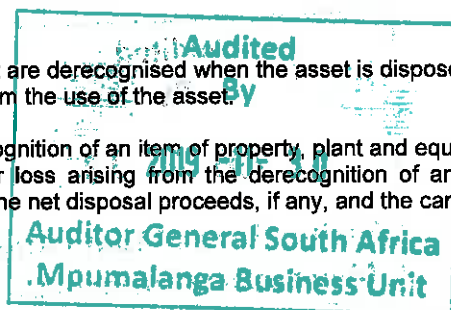
- (a) The composition of the asset changed during the reporting period, i.e. the significant components of the asset changed.
- (b) The use of the asset has changed, because of the following:
  - The municipality has changed the manner in which the asset is used.
  - The municipality has changed the utilisation rate of the asset.
  - The municipality has made a decision to dispose of the asset in a future reporting period(s) such that this decision changes the expected period over which the asset will be used.
  - Technological, environmental, commercial or other changes that occurred during the reporting period that have, or will, change the use of the asset.
  - Legal or similar limits placed on the use of the asset have changed.
  - The asset was idle or retired from use during the reporting period.
- (c) The asset is approaching the end of its previously expected useful life.
- (d) Planned repairs and maintenance on, or refurbishments of, the asset and/or its significant components either being undertaken or delayed.
- (e) Environmental factors, e.g. increased rainfall or humidity, adverse changes in temperatures or increased exposure to pollution.
- (f) There is evidence that the condition of the asset improved or declined based on assessments undertaken during the reporting period.
- (g) The asset is assessed as being impaired in accordance with the Standards of GRAP on Impairment of Cash-generating Assets and Impairment of Non-cash-generating Assets.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

### Derecognition

Items of Property, Plant and Equipment are derecognised when the asset is disposed of or when there are no further economic benefit or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.





# City of Mbombela

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## Accounting Policies

### 1.5 Intangible assets

#### Initial recognition and measurement

An intangible asset is an identifiable non-monetary asset without physical substance.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance is not recognised as intangible assets

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Intangible assets are initially recognised at cost. Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

#### Subsequent measurement

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test, and the useful life is reviewed at each reporting date, if the useful life has changed from indefinite and definite, it is treated as a change in accounting estimate in Statement of Financial Performance.

#### Amortisation

The municipality assesses whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for, or provide service potential to the municipality.

The useful life of an intangible asset that arises from binding arrangements (including rights from contracts) shall not exceed the period of the binding arrangement, but may be shorter depending on the period over which the entity expects to use the asset. If the binding arrangements (including rights from contracts) are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the municipality without significant cost.

Amortisation is charged so as to write off the cost of intangible assets over their estimated useful lives using the straight line method. The amortisation rates are based on the following estimated average asset lives.

#### Item

Servitudes  
Licenses and franchises  
Computer software

#### Useful life

Not depreciated  
1 - 3 years  
5 - 20 years

Auditor General South Africa  
Mpumalanga Business Unit

# City of Mbombela

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## Accounting Policies

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### 1.5 Intangible assets (continued)

Further detail on the useful lives of the categories of assets can be obtained from the assets management policy, available for inspection at our offices.

Each item of intangible asset is amortised separately. Rights consist mainly of servitude's. Rights are not amortised as they have an indefinite useful life. A servitude right is granted to the Municipality for an indefinite period. The life of the servitude will remain in force as the Municipality exercises its rights under such servitude's.

The depreciable amount of an intangible asset with a finite useful life is allocated on a systematic basis over its useful life. Amortisation begins when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation shall cease at the date that the asset is derecognised. The amortisation charge for each period shall be recognised in surplus or deficit unless this or another Standard permits or requires it to be included in the carrying amount of another asset.

The residual value of an intangible asset with a finite useful life is assumed to be zero unless:

- (a) there is a commitment by a third party to acquire the asset at the end of its useful life; or
- (b) there is an active market for the asset and:

- residual value can be determined by reference to that market; and
- it is probable that such a market will exist at the end of the asset's useful life

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised prospectively as a change in accounting estimate in the Statement of Financial Performance.

An intangible asset with an indefinite useful life shall not be amortised. The useful life of an intangible asset that is not being amortised shall be reviewed each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite shall be accounted for as a change in an accounting estimate in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

### Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefit or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the statement of financial position.

### 1.6 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

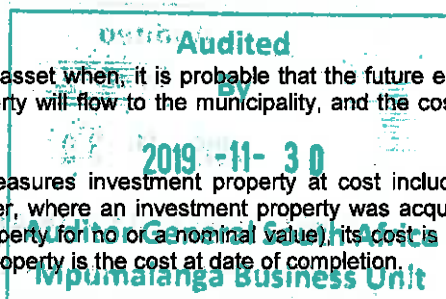
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

### Initial recognition and measurement

Investment property is recognised as an asset when it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value) its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is the cost at date of completion.



## City of Mbombela

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### Accounting Policies

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#### 1.6 Investment property (continued)

##### Subsequent measurement

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Investment property is subsequently measured using the cost model. Under the cost, Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Transfers to, or from, investment property is made when, and only when, there is a change in use, evidenced by:

- commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
- commencement of development with a view to sale, for a transfer from investment property to inventories;
- end of owner-occupation, for a transfer from owner-occupied property to investment property; or
- commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property

##### Depreciation

Depreciation is calculated on the depreciable amount, using the straightline method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives.

Item	Useful life
Property - land	indefinite
Property - buildings	15 - 30 years

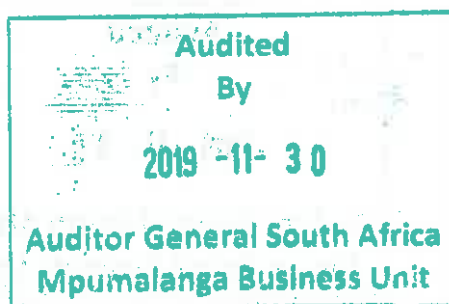
Further detail on the useful lives of the categories of assets is detailed on the assets management policy, available for inspection at our offices.

##### Derecognition

An investment property is derecognised on disposal including disposal through non-exchange transactions or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Gains or losses arising from the retirement or disposal of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the Statement of Financial Performance.



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## Accounting Policies

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### 1.7 Heritage assets

#### Initial recognition and measurement

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

The Municipality holds an asset that might be regarded as a heritage asset but on initial recognition, it does not meet the recognition criteria of a heritage asset because it cannot be reliably measured, relevant and useful information about the asset shall be disclosed in the notes to the financial statements.

The municipality uses judgment to assess the degree of certainty attached to the flow of future economic benefits or service potential that are attributable to the heritage asset on the basis of the evidence available at the time of initial recognition.

An asset that has met the recognition requirement criteria for heritage assets shall be measured at its cost if such an asset has been acquired through an exchange transaction.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

The cost of the heritage asset is the cash price equivalent at the recognition date. If the payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit, unless such interest is recognised in the carrying amount of the heritage asset in accordance with the standard of GRAP on borrowing costs.

Costs incurred to enhance or restore the heritage asset to preserve its indefinite useful life is capitalised as part of its cost. Such costs is recognised in the carrying amount of the heritage asset as incurred, when the recognition criteria is met.

An asset that has met the recognition requirement criteria for heritage assets shall be measured at its cost if such an asset has been acquired through an exchange transaction.

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses. Heritage assets are not depreciated due to its nature however the municipality assess at each reporting date whether there are indications of impairment and, if any, impairment exists, the municipality estimates the recoverable amount or recoverable service amount of the heritage asset.

#### Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### Transfers

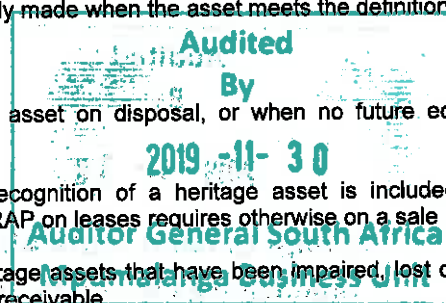
Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset. Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

#### Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

Compensation from third parties for heritage assets that have been impaired, lost or given up, shall be included in surplus or deficit when the compensation becomes receivable.



# City of Mbombela

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Audited Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.8 Inventories

Inventories are assets:

- (a) in the form of materials or supplies to be consumed in the production process.
- (b) in the form of materials or supplies to be consumed or distributed in the rendering of services.
- (c) held for sale or distribution in the ordinary course of operations.
- (d) in the process of production for sale or distribution

#### Initial recognition and measurement

Inventories are recognised as an asset if it is probable that future economic benefits or service potential associated with the item will flow to the Municipality and the cost of the inventories can be measured reliably.

Inventories that qualify for recognition as assets are initially recognised at cost. The cost of inventories comprises of all costs purchase cost of conversion and other costs incurred in bringing the inventories to its present location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

When inventories are acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

#### Subsequent measurement

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are measured at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge or to be consumed in the production process of goods to be distributed at no charge or for a nominal charge, in which case they are measured at the lower of cost and current replacement cost.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

In general, the basis of allocating cost to inventory items is the first-in, first-out method or the weighted average method.

### 1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an municipality on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.



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## Accounting Policies

### 1.9 Financial instruments (continued)

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, a municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another municipality; or
- a contractual right to:
  - receive cash or another financial asset from another municipality; or
  - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by a municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

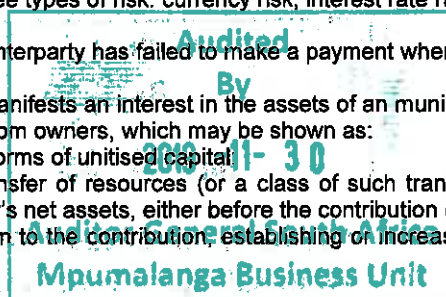
Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of a municipality after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued capital
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of a municipality's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of a municipality.



# City of Mbombela

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Audited Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.9 Financial instruments (continued)

**Transaction costs** are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

**Financial instruments at amortised cost** are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the municipality designates at fair value at initial recognition; or
- are held for trading.

**Financial instruments at cost** are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

**Financial instruments at fair value** comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

#### Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument. Financial assets are recognised through the application of trade date accounting.

Upon initial recognition the Municipality classifies financial instruments or their component parts as financial liabilities, financial assets or residual interests in conformity with the substance of the contractual arrangement and to the extent that the instrument satisfies the definitions of a financial liability, a financial asset or a residual interest.

The Municipality measures financial instruments that are designated at fair value on recognition at its fair value at the date of recognition. Financial Instruments designated at amortised cost and those designated at cost are initially measured, at the date of recognition, at its fair value plus transaction costs directly attributable to the acquisition or issue of the instrument.

The classification of financial assets depends on their nature and purpose, and is determined at the date of initial recognition.

#### Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Audited By  
2019-11-30  
Auditor General South Africa  
Mpumalanga Business Unit

# City of Mbombela

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## Accounting Policies

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### 1.9 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

#### Financial assets

##### Financial assets at fair value

These comprise of non-derivative financial assets with fixed or determinable payments. Subsequent to initial recognition such assets are measured at amortised cost using the effective interest method less any impairment and/or plus reversal of impairment.

##### Financial assets at amortised cost

These comprise of financial assets held for trading, derivative financial assets, non-derivative financial assets designated at fair value and investments in residual interest for which fair value can be measured reliably. Subsequent to initial recognition all changes to fair value are recognised through the statement of financial performance.

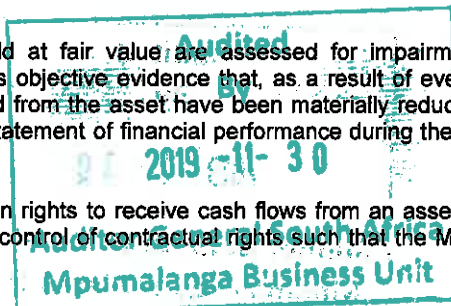
##### Financial assets at cost

These comprise of investments in residual interest that does not have a quoted market price in an active market and the fair value cannot be measured reliably. Subsequent to initial recognition such investments are measured at its carrying amount less any impairment.

#### Impairment of financial assets

Financial assets other than those held at fair value are assessed for impairment at the end of each reporting period. Impairment is considered when there is objective evidence that, as a result of events occurred after initial recognition of the asset, the expected value to be derived from the asset have been materially reduced. The Municipality recognise impairment losses or impairment reversals in the statement of financial performance during the financial year in which the loss or reversal occurred.

Financial assets are derecognised when rights to receive cash flows from an asset have expired or have been transferred to another party or the Municipality loses control of contractual rights such that the Municipality no longer retain significant risks and rewards associated with ownership.





# City of Mbombela

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### 1.9 Financial instruments (continued)

#### Accounts receivables

Receivables are initially recognised at its fair value. Bad debts are written off in the year in which they are identified as irrecoverable, subject to approval by appropriate delegated authority. Amounts receivable within 12 months from the date of reporting are classified as current. A provision for impairment of receivables is established when there is objective evidence that the Municipality will not be able to collect all amounts due according to the initial terms receivables. The amount of the provision is that difference between the asset's carrying amount and its present value of estimated future cash flows, discounted at the initial effective interest rate. An estimate of doubtful debts is made at the end of each reporting period taking into consideration past default experiences. Interest is charged on overdue amounts.

#### Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost. Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held on call with banks.

#### Financial liabilities

After initial recognition, the Municipality measures all financial liabilities, including payables at amortised cost using the effective interest rate method. Financial liabilities include borrowings, other non-current liabilities and payables and exclude provisions. Finance charges, including premiums payable, are accounted for on an accrual basis.

#### Gains and losses

The municipality recognise gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit. For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Derecognition

##### Financial assets

Financial assets are derecognised when rights to receive cash flows from an asset have expired or have been transferred to another party or the Municipality loses control of contractual rights such that the Municipality no longer retain significant risks and rewards associated with ownership.

##### Financial liabilities

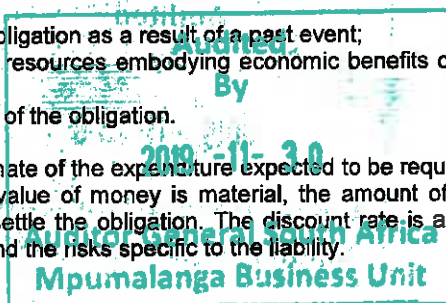
Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled or when it expires.

### 1.10 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date. Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.



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#### 1.10 Provisions and contingencies (continued)

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Subsequent changes in the measurement of provisions relating to rehabilitation of landfill sites as a result of change in estimated cash flows required to settle the obligation will result in increased carrying amounts of the landfill sites to which the provision relates. The adjusted depreciable amount of the landfill sites will be depreciated over the remaining useful life of the landfill site. Once the landfill site has reached the end of its useful life, all subsequent changes in the value of the liability will be recognised in the statement of financial performance.

#### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.21 and 1.22.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

A contingent liability is a possible obligation whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Municipality

#### 1.11 Leases

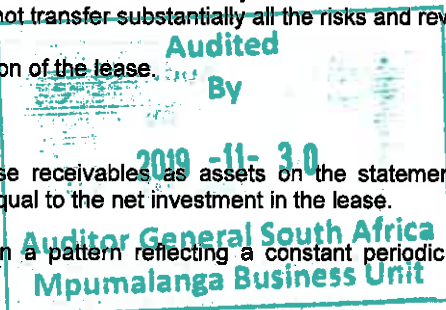
A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Lease classification is made at the inception of the lease.

##### Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.



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### Accounting Policies

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#### 1.11 Leases (continued)

##### Finance leases - lessee

The Municipality recognise assets acquired under finance leases as assets and the associated lease obligations as liabilities in the statement of financial position. The assets and liabilities are recognised at amounts equal to the fair value of the leased property or if lower the present value of the minimum lease payments as determined at inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if it is practicable to determine however if not, the incremental borrowing rate shall be used. Any initial direct costs of the Municipality are added to the amount recognised as an asset.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance expenses and the capital repayment using the effective interest rate method. Lease finance expenses are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

##### Operating leases - lessor

Assets subject to operating leases are presented in the statement of financial position according to the nature of the asset.

Lease revenue from operating leases is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred by the Municipality in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognised as expenses over the lease term on the same basis as the lease revenue.

##### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

#### 1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Revenue from exchange transactions refers to revenue that accrued to the Municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

##### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

##### Sale of goods

Revenue from the sale of goods shall be recognised when all the following conditions have been satisfied:

- the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably

Revenue from the sale of goods is recognised when all conditions associated with the deed of sale have been met.

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## Accounting Policies

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### 1.12 Revenue from exchange transactions (continued)

#### Service charges

Service charges relating to electricity and water which are based on consumption are metered and an estimate of consumption between the latest meter reading and the reporting date shall be recognised when:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.

Meters are read on a monthly basis and the revenue is recognised when invoiced. Provisional estimates of consumptions are made monthly when meter readings have not been performed and are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made then recognised in the statement of financial performance in the invoicing period in which meters have been read. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Revenue from the sale of electricity prepaid meter credit is recognised at the point of sale. An adjustment for an unutilised portion is made at year-end, based on average consumption history.

Service charges relating to refuse removal are recognised on a monthly basis by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage and are levied monthly based on the number of refuse containers on each property, regardless of whether or not containers are emptied during the month.

Service charges from sewerage and sanitation are based on the size of the property, number of dwellings on each property and connection, using the tariffs approved by Council and are levied monthly.

Revenue from rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

#### Interest

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised in the statement of financial performance using the effective interest rate method.

#### Agency services

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The revenue recognised by the Municipality is in terms of the agency agreement and is limited to the amount of any fee or commission payable to the Municipality as compensation for executing the agreed services.

Collection charges are recognised when such amounts are incurred.

### 1.13 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions between one or more parties where the Municipality received revenue from another Municipality without directly giving approximately equal value in exchange. Revenue from non-exchange transaction is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and satisfy the recognition criteria.

An inflow of resources from non-exchange transaction that meets the definition of an asset is recognised as an asset when it is probable that future economic benefits or service potential associated with the asset will flow to the Municipality and the fair value of the asset can be measured reliably.

Revenue from non-exchange transactions is measured at the amount of the increase in net assets recognised.

An asset acquired through a non-exchange transaction is initially measured at fair value as at the date of acquisition.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

## City of Mbombela

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### Accounting Policies

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#### 1.13 Revenue from non-exchange transactions (continued)

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

##### Taxes

Taxes are economic benefits or service potential compulsory paid or payable to the Municipality, in accordance with the laws and or regulations, established to provide revenue to the Municipality. Taxes do not include fines or other penalties imposed for breaches of the law.

The Municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

##### Property rates

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Rebates are respectively granted, to owners of land on which not more than two dwelling units are erected provided that such dwelling units are solely used for residential purposes. Additional relief is granted to needy, aged and/or disabled owners, based on income. The rebates granted are deducted from revenue.

Property rates revenue is recognised once a rates account has been issued to ratepayers. Adjustments or interim rates are recognised once the municipal valuer has valued the change to properties.

##### Transfers

Transfers are inflows of future economic benefits or service potential from non-exchange transactions other than taxes.

The Municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

##### Fines

Fines are economic benefits or service potential received or receivable to the Municipality from an individual or another Municipality, as determined by a court or other law enforcement body, as a consequence of the individual or another Municipality breaching the requirements of laws and regulations. Control of the traffic fine is demonstrated through the existence of an enforceable claim.

Fines constitute notices of intended prosecution- section 341 spot fines and written notices (summonses- section 56 of the Criminal Procedures Act, 51 of 1977).

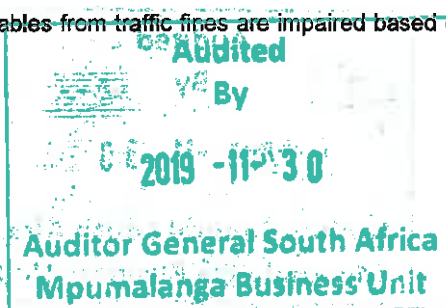
##### Initial recognition and measurement

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition of an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the Municipality.

##### Subsequent measurement

Subsequently assets arising from the receivables from traffic fines are impaired based on the collection trends of the previous financial years.





# City of Mbombela

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## Accounting Policies

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### 1.13 Revenue from non-exchange transactions (continued)

#### Government grants and donations

Government Grants can be in the form of grants to acquire or construct fixed assets (capital grants), grants for the furtherance of national and provincial government policy objectives and general grants to subsidise the cost incurred by municipalities rendering services.

Capital grants and general grants for the furtherance of government policy objectives are usually restricted revenue in that stipulations are imposed in their use.

Conditional grants, donations and funding were recognised as revenue in the Statement of Financial Performance to the extent that the Municipality has complied with any criteria, conditions or obligations embodied in the agreement/arrangement. To the extent that the criteria, conditions and obligations have not been met a liability is raised in the Statement of Financial Position. Unconditional grants, donations and funding are recognised as revenue in the Statement of Financial Position at the earlier of the date of receipt or when the amount is receivable.

Contributed assets are recognised at fair value when the risks and rewards associated with such asset transfer to the Municipality.

#### Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

#### Concessionary loans

Concessionary loans are loans received by entities at below market terms. The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction and is accounted for in accordance with this Standard.

The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest. The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the municipality recognises revenue as and when it satisfies the conditions of the loan agreement.

### 1.14 Borrowing costs

Borrowing costs are interest and other expenses incurred by the municipality in connection with the borrowing of funds.

The municipality recognise all borrowing costs as an expense in the period in which they are incurred.

### 1.15 Employee benefits

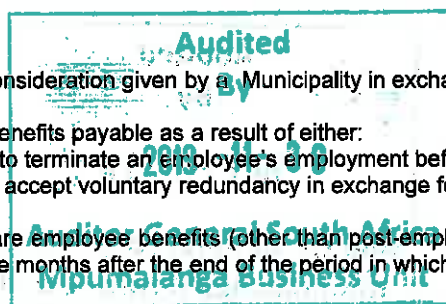
Employee benefits are all forms of consideration given by a Municipality in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:

- an Municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.



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### Accounting Policies

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#### 1.15 Employee benefits (continued)

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an Municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the Municipality has indicated to other parties that it will accept certain responsibilities and as a result, the Municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

#### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the Municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The Municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The Municipality recognise the expected cost of bonus, incentive and performance related payments when the Municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

The cost of short-term employee benefits, which include salaries and wages, short-term compensated absences, non-monetary benefits such as medical aid and performance plans, are expensed in the Statement of Financial Performance in the financial year during which the payment is made.

Liabilities for short-term employee benefits that are unpaid at year-end are measured at the undiscounted amount that the Municipality is expected to pay in exchange for that service that had accumulated at the reporting date.

#### Post-employment benefits

The Municipality provides post employment benefits for its employees and councillors. These benefits are provided as either defined contribution plans or defined benefit plans.

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which a Municipality provides post-employment benefits for one or more employees.



# City of Mbombela

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### 1.15 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

The Municipality provide post employment medical care benefits to retired employees and their legitimate spouses. The entitlement to post employment medical benefits is based on employees remaining in service up to retirement age and the completion of a minimum service period. The expected cost, of these benefits is accrued over the period of employment.

Pursuant to the Municipality's obligation to fund the post-employment benefits provided through a defined benefit plan, the Municipality recognises a defined benefit obligation or asset with reference to the fund's financial position. To the extent that the future benefits payable under the fund exceeds the value assets held to finance those benefits, the Municipality recognises as defined benefit obligation. To the extent that the value of plan assets exceeds the future benefits payable by the fund the Municipality recognises as defined benefit asset.

The defined benefit asset or obligation recognised is recognised as the net difference between the value of the plan assets and plan liabilities and also taking past service cost into consideration.

Actuarial valuations are conducted on an annual basis by independent actuaries for each plan.

Actuarial gains and losses comprise experience adjustments (the effect of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in the actuarial assumptions. Actuarial gains and losses are recognised in full in the Statement of Financial Performance in the year that they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the Municipality recognise past service cost as an expense in the reporting period in which the plan is amended.

Where the Municipality reduces benefits payable under an existing defined benefit plan, the resulting reduction in the defined benefit liability is recognised as (negative) past service cost in the reporting period in which the plan is amended.

Where the Municipality reduces certain benefits payable under an existing defined benefit plan and, at the same time, increases other benefits payable under the plan for the same employees, the Municipality treats the change as a single net change.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The Municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The Municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.



# City of Mbombela

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## Accounting Policies

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### 1.15 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

### 1.16 Unauthorised expenditure

Unauthorised expenditure means overspending of a vote, expenditure that has not been budgeted for and expenditure not in terms of the conditions of an allocation received from another sphere of government, Municipality or organ of state. Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and when recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Unauthorised expenditure has been incurred during the reporting period.

### 1.17 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Irregular expenditure has been incurred during the reporting period.

### 1.18 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and when recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Fruitless and wasteful expenditure has been incurred during the period period.

### 1.19 Value Added Tax (VAT)

The municipality accounts for value added tax on the payment basis.

### 1.20 Budget Information

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The annual budget figures have been presented in accordance with the GRAP reporting framework. A separate statement of comparison of budget and actual amounts, which forms part of the annual financial statements has been prepared. The comparison of budget and actual amount will be presented on the same accounting basis, same classification basis and for the same Municipality and period as for the approved budget. The budget is prepared on the accrual basis. The budget of the Municipality is taken for a stakeholder consultative process and upon approval, the approved budget is made publicly available.

Material differences in terms of the basis, timing or entity have been disclosed in the notes to the annual financial statements.

The most recent approved budget by Council is the final budget for the purpose of comparison with the actual amounts.

The approved budget relates to the fiscal period of 01 July 2016 to 30 June 2019.

# City of Mbombela

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### 1.21 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

#### Reversal of impairment loss

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

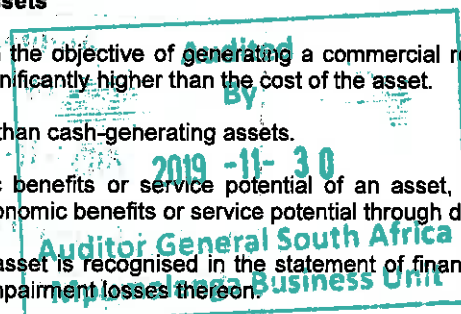
### 1.22 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.



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#### 1.22 Impairment of non-cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

- The current profitability of the asset, as well as management's assessment of the profitability of the asset becoming profitable.



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#### 1.22 Impairment of non-cash-generating assets (continued)

##### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

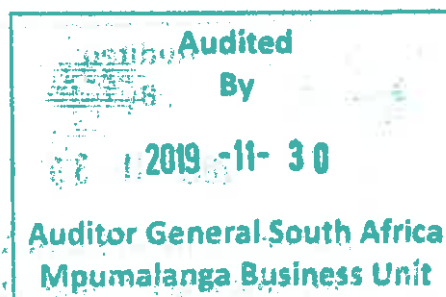
##### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

##### Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.



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#### 1.22 Impairment of non-cash-generating assets (continued)

##### Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit to the statement of financial performance.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the Municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

The Municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the Municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

##### Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

#### 1.23 Related parties

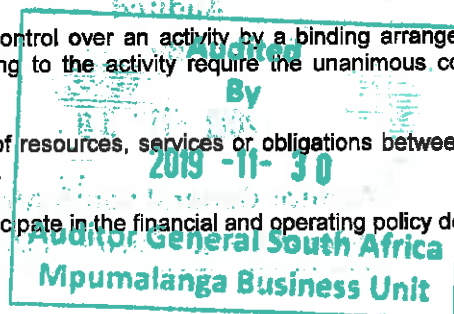
A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.



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#### 1.23 Related parties (continued)

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its audited annual financial statements.

#### 1.24 Grant in aid

The Municipality transfers funds to individuals, organisations, societies and other sectors of government from time to time in accordance with the local government prescripts.

When the transfers are made, the Municipality does not:

- receive any goods or services directly in return, as would be expected in an acquisition or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

The transfers are recognised in the Statement of Financial Performance as expenses in the period that the event giving rise to the transfer occurred.

#### 1.25 Changes in accounting policy, accounting estimates and correction of error

Changes in accounting policies are applied retrospectively in accordance with the requirements of Generally Recognised Accounting Practice (GRAP) 3, except to the extent that it is impractical to determine the period specific effects or the cumulative effect of the change in accounting policy. In such instances the Municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which the retrospective restatement is practical.

Changes in accounting estimates are applied prospectively in accordance with the requirements of Generally Recognised Accounting Practice (GRAP) 3. The detailed information of the change in accounting estimates is disclosed in the notes to the annual financial statements

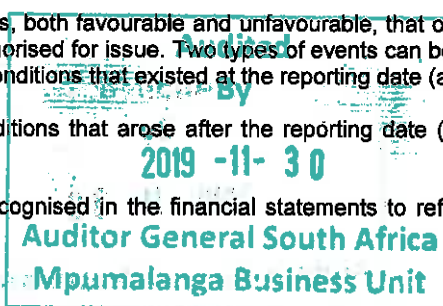
Correction of errors is applied retrospectively in the period to which the error has occurred in accordance with the requirements of Generally Recognised Accounting Practice (GRAP) 3, except to the extent that it is impractical to determine the period specific effects or the cumulative effect of the error. In such instances the Municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which the retrospective restatement is practical.

#### 1.26 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date.





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The Municipality does not adjust the amounts recognised in the audited annual financial statements to reflect non-adjusting events after the reporting date. If the Municipality receives information after the reporting date but before the financial statements are authorised for issue, about conditions that existed at the reporting date, the disclosure that relate to those conditions shall be updated in light of the new information.

#### 1.27 Capital commitments

Capital commitments disclosed in the notes to the audited annual financial statements represents the balance committed to capital projects as at the reporting date which will be incurred in the period subsequent to the reporting period.

The municipality discloses commitments inclusive of VAT per the commitments register.

#### 1.28 Key sources of estimation uncertainty and Judgements

The following areas involve a significant degree of estimation uncertainty:

- Useful lives and residual values of property, plant, and equipment
- Recoverable amounts and/ recoverable service amounts of property, plant and equipment
- Provision for rehabilitation of landfill sites (discount rate used)
- Present value of defined benefit obligation
- Impairment allowance/ Debt impairment
- Impairment of cash-generating and non cash-generating assets
- Provision for long service awards

The following areas involved judgements, apart from those involving estimations disclosed above, that management has made in the process of applying the Municipality's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

- Impairment of cash-generating and non cash-generating assets
- Provisions

#### 1.29 Mergers

##### Identifying the combined Municipality and combining entities

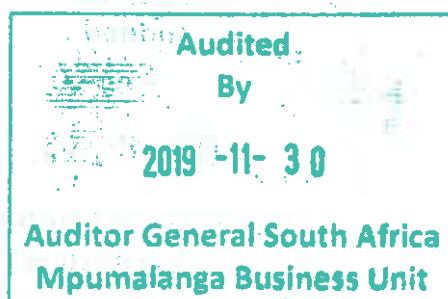
For each merger a combined municipality and combining entities is identified. All relevant facts and circumstances are considered in identifying the combined municipality and combining municipality.

The binding arrangement usually sets out which entities are to be combined as a result of the merger, and identifies the new reporting municipality after the merger.

##### Determining the merger date

The combined municipality and the combining entities identify the merger date, which is the date on which the new reporting municipality obtains control of the assets and liabilities and the combining entities loses control of their assets and liabilities.

All relevant facts and circumstances are considered in identifying the merger date.





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#### 1.29 Mergers (continued)

##### **Assets acquired [transferred] and liabilities assumed [derecognised]**

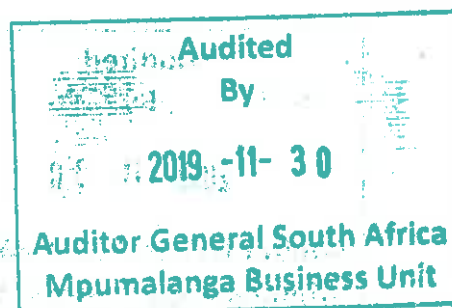
The recognition of assets and liabilities by the entity as combined entity are subject to the following conditions:

The assets and liabilities that qualify for recognition in a merger are part of what had been agreed in terms of the binding arrangement, rather than the result of separate transactions.

##### **Other criteria for the Municipality (as the combined Municipality)**

The assets and liabilities that qualify for recognition as set out in the binding arrangement meets the definitions of assets and liabilities in the Framework for the Preparation and Presentation of Financial Statements and the recognition criteria in the applicable Standards of GRAP at the merger date.

Costs that the entity expects but which the municipality is not obliged to incur in the future to effect its plan to exit an activity of the combining entities or to terminate the employment of, or relocate the combining entities' employees, is not be accounted for as part of the liabilities at the merger date. The entity does not recognise those costs as part of a merger. Instead, the municipality recognises these costs in its audited annual financial statements after the merger has occurred, in accordance with the applicable Standards of GRAP.



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### 1.29 Mergers (continued)

#### Accounting by the Municipality as the combined Municipality

##### Initial recognition and measurement

As of the merger date, the municipality recognises all the assets acquired and liabilities assumed. The assets acquired and liabilities assumed are measured at their carrying amounts.

If, prior to the merger, a combining municipality was not applying the accrual basis of accounting, that combining municipality changes its basis of accounting to the accrual basis of accounting prior to the merger.

The difference between the carrying amounts of the assets acquired and the liabilities assumed is recognised in accumulated surplus or deficit.

##### Measurement period

If the initial accounting for a merger is incomplete by the end of the reporting period in which the merger occurs, the municipality reports in its audited annual financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the municipality retrospectively adjust the provisional amounts recognised at the merger date to reflect new information obtained about facts and circumstances that existed as of the merger date and, if known, would have affected the measurement of the amounts recognised as of that date. The measurement period ends as soon as the municipality receives the information it was seeking about facts and circumstances that existed as of the merger date or learns that more information is not obtainable. However, the measurement period does not exceed two years from the merger date.

The municipality considers all relevant factors in determining whether information obtained after the merger date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the merger date. Relevant factors include the date when additional information is obtained and whether the municipality can identify a reason for a change to provisional amounts.

The municipality recognises an increase (decrease) in the provisional amount recognised for an asset (liability) by means of decreasing (increasing) the excess of the purchase consideration paid over the carrying amount of the assets acquired and liabilities assumed previously recognised in accumulated surplus or deficit.

During the measurement period, the municipality recognises adjustments to the provisional amounts as if the accounting for the merger had been completed at the merger date. Thus, the municipality revises comparative information for prior periods presented in audited annual financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.

After the measurement period ends, the municipality revises the accounting for a merger only to correct an error in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

##### Expenditure incurred in relation to the merger

Expenditures incurred in relation to the merger are costs that the entity incurs to effect the merger. These costs include advisory, legal, accounting and other professional or consulting fees, general administrative costs, costs to furnish information to owners of the combining entities, and salaries and other expenses related to services of employees involved in achieving the merger. It also includes costs or losses incurred in combining the assets and liabilities of the combining entities. The municipality accounts for such expenditure as expenses in the period in which the costs are incurred.

##### Subsequent measurement

The municipality subsequently measures any assets acquired and any liabilities assumed in a merger in accordance with the applicable Standards of GRAP.

At the merger date, the municipality classifies or designates the assets acquired and liabilities assumed as necessary to apply other Standards of GRAP subsequently. The municipality makes those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, the operating or accounting policies and other relevant conditions as these exist at the merger date. An exception is that the municipality classifies the following contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the merger date):

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### 1.29 Mergers (continued)

- classification of a lease contract as either an operating lease or a finance lease in accordance with the Standard of GRAP on Leases; and
- classification of a contract as an insurance contract in accordance with the International Financial Reporting Standard on Insurance Contracts.

The audited annual financial statements of the municipality are prepared using uniform accounting policies for similar transactions and other events or similar circumstances.

### 1.30 Transfer of functions between entities not under common control

#### Identifying the acquirer and acquiree

For each transfer of functions between entities not under common control one of the combining entities is identified as the acquirer. Determining the acquirer include a consideration of, amongst other things, which of the combining entities initiated the transaction or event, the relative size of the combining entities, as well as whether the assets or revenue of one of the entities involved in the transactions or event significantly exceed those of other entities. The terms and conditions of a transfer of functions undertaken between entities not under common control are set out in a binding arrangement. The binding arrangement governing the terms and conditions of a transfer of functions may identify which Municipality to the transaction or event is the combining Municipality and which Municipality is the acquirer. Determining the acquirer includes a consideration of, amongst other things, which of the combining entities involved initiated the transaction or event, the relative size of the entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. If no acquirer can be identified, the transaction or event is accounted for in terms of the Standard of GRAP on Mergers.

#### Determining the transfer date

The acquirer identifies the acquisition date which is the date on which it obtains control of the acquiree. The date on which the acquirer obtains control of the functions is the date on which the acquirer transfers the consideration, acquires the assets and assumes the liabilities of the acquiree as identified to in the binding arrangement.

#### Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

As of the acquisition date, the acquirer recognise, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. Recognition of identifiable assets acquired and liabilities assumed is subject to the following conditions:

The identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the Framework for the Preparation and Presentation of Financial Statements and the recognition criteria in the applicable Standards of GRAP at the acquisition date.

The identifiable assets acquired and liabilities assumed must be part of what the acquirer and the acquiree (or its former owners) agreed in the binding arrangement rather than the result of separate transactions.

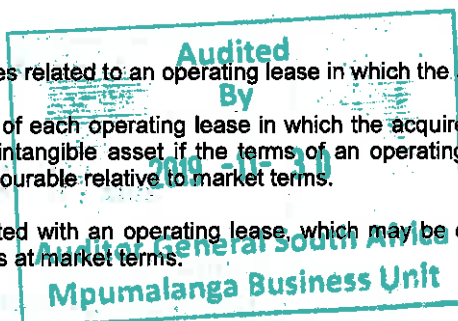
The acquirer's application of the recognition principle and conditions may result in recognising some assets and liabilities that the acquiree had not previously recognised as assets and liabilities in its financial statements.

#### Operating leases

The acquirer shall recognise no assets or liabilities related to an operating lease in which the acquiree is the lessee

The acquirer shall determine whether the terms of each operating lease in which the acquiree is the lessee are favourable or unfavourable. The acquirer shall recognise an intangible asset if the terms of an operating lease are favourable relative to market terms and a liability if the terms are unfavourable relative to market terms.

An identifiable intangible asset may be associated with an operating lease, which may be evidenced by market participants' willingness to pay a price for the lease even if it is at market terms.



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#### 1.30 Transfer of functions between entities not under common control (continued)

##### Intangible assets

The acquirer shall separately recognise the identifiable intangible assets acquired in a transfer of functions. An intangible asset is identifiable if it meets either the separability criterion or the contractual-legal right criterion.

An intangible asset that meets the contractual-legal right criterion is identifiable even if the asset is not transferable or separable from the acquiree or from other rights and obligations.

An intangible asset that is not individually separable from the acquiree meets the separability criterion if it is separable in the transfer of functions with a related contract, identifiable asset or liability.

At the acquisition date, the acquirer shall classify or designate the identifiable assets acquired and liabilities assumed as necessary to apply other Standards of GRAP subsequent to the acquisition date. The acquirer shall make those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, its operating or accounting policies and other relevant conditions as they exist at the acquisition date.

The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

##### Exceptions to the recognition or measurement principles

##### Contingent liabilities - Exception to recognition principles

The acquirer shall recognise as of the acquisition date a contingent liability assumed in a transfer of functions if it is a present obligation that arises from past events and its fair value can be measured reliably.

The acquirer recognises a contingent liability assumed in a transfer of functions at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation. Paragraph .86 provides guidance on the subsequent accounting for contingent liabilities.

##### Employee benefits - Exception to recognition and measurement principles

The acquirer shall recognise and measure a liability (or asset, if any) related to the acquiree's employee benefit arrangements in accordance with the Standard of GRAP on Employee Benefits.

##### Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred (if any)

The acquirer shall recognise the difference between the assets acquired and liabilities assumed and the consideration transferred (if any) as of the acquisition date in surplus or deficit.

##### Consideration transferred

The consideration transferred in a transfer of functions shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the residual interests issued by the acquirer.

##### Measurement period

If the initial accounting for a transfer of functions is incomplete by the end of the reporting period in which the transfer occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed two years from the acquisition date.

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#### 1.30 Transfer of functions between entities not under common control (continued)

##### Contingent liabilities

After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognised in a transfer of functions at the higher of:

- (a) the amount that would be recognised in accordance with the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- (b) the amount initially recognised less, if appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

##### Indemnification assets

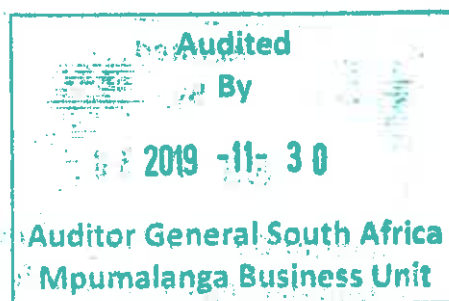
At the end of each subsequent reporting period, the acquirer shall measure an indemnification asset that was recognised at the acquisition date on the same basis as the indemnified liability or asset, subject to any limitations as set in the binding arrangement on its amount and, for an indemnification asset that is not subsequently measured at its fair value, management's assessment of the collectability of the indemnification asset. The acquirer shall derecognise the indemnification asset only when it collects the asset, sells it or otherwise loses the right to it.

##### Reacquired rights

A reacquired right recognised as an intangible asset shall be amortised over the remaining contractual period of the contract in which the right was granted.

##### Subsequent measurement

The acquirer subsequently measure and account for assets acquired, liabilities assumed or incurred and the residual interest issued in a transfer of functions in accordance with other applicable Standards of GRAP for those items, depending on their nature.



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### 1.31 Statutory receivables

Statutory receivables are receivables that:

- arise from legislation, supporting regulations, or similar means; and
- require settlement by another entity in cash or another financial asset.

Statutory receivables constitute revenue receivable from property rates, fines, penalties, grants and fees charged in terms of legislation.

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using GRAP 9;
- if the transaction is a non-exchange transaction, using GRAP 23;
- if the transaction is not within the scope of either GRAP 9 or GRAP 23, the receivable is recognised when:
  - the definition of an asset is met; and
  - it is probable that future economic benefits or service potential associated with the asset will flow to the municipality and the transaction amount can be measured reliably.

The municipality measures a statutory receivable initially at its transaction amount.

The municipality measures all statutory receivables after initial recognition using the cost method.

Under the cost method the amount recognised initially is only changed subsequently to reflect any:

- interest or other charges that may have accrued on the receivable;
- impairment loss; and
- amounts derecognised.

The municipality assesses at the end of each reporting period whether there is objective evidence that a statutory receivable or group of statutory receivables is impaired.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default payments are all considered indicators of impairment.

If there is objective evidence that an impairment loss on statutory receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the estimated future cash flows - discounted if the effect of discounting is material - using a rate that reflects the current risk free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

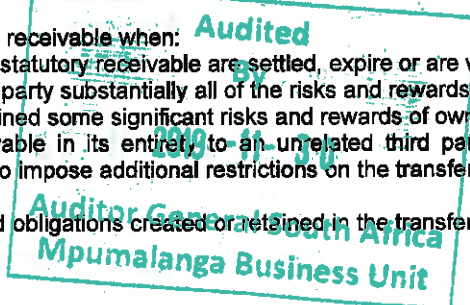
The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The reversal does not result in a carrying amount of the statutory receivable that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Where statutory receivables are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such receivables are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

The municipality derecognises a statutory receivable when:

- the rights to the cash flows from the statutory receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the receivable;
  - recognises separately any rights and obligations created or retained in the transfer.





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### 1.31 Statutory receivables (continued)

The carrying amount of the transferred asset is allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are considered for inclusion within the scope of GRAP 104 or another standard of GRAP. Any difference between the consideration received and amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

### 1.32 Service concession arrangements: Grantor

A service concession arrangement is a contractual arrangement between a grantor (the municipality) and an operator in which:

- the operator uses the service concession asset to provide a mandated function on behalf of the municipality for a specified period of time; and
- the operator is compensated for its services over the period of the service concession arrangement.

A service concession asset is an asset used to provide a mandated function in a service concession arrangement that:

- is provided by the operator which:
- the operator constructs, develops, or acquires from a third party; or
- is an existing asset of the operator.
- is provided by the grantor (municipality) which:
- is an existing asset of the municipality; or
- is an upgrade to an existing asset of the municipality.

An asset is provided by the operator, or an upgrade to an existing asset of the municipality is recognised as a service concession asset if:

- the municipality controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price;
- the municipality controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the asset at the end of the arrangement.

The municipality measures initially a service concession asset at its fair value.

The municipality recognises a liability where a service concession asset is recognised.

The liability is initially recognised at the same amount as the service concession asset, adjusted by the amount for any consideration from the municipality to the operator, or from the operator to the municipality.

Where the municipality has an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition or upgrade of a service concession asset, the liability is accounted for as a financial liability in accordance with GRAP 104.

The payments made to the operator are accounted for according to their substance as:

- a reduction in the liability recognised;
- a finance charge; and
- charges for services provided by the operator.

Where the asset and service components of a service concession arrangement are separately identifiable, the service components of payments are allocated by reference to the relative fair values of the service concession asset and the services. If not, the service component of payments is determined using valuation techniques.

Where the municipality does not have an unconditional obligation to pay cash or another financial asset to the operator, and grants the operator the right to earn revenue from third-party users or another revenue-generating asset, the liability is accounted for as the unearned portion of revenue arising from the exchange of assets between the municipality and the grantor.

The liability is reduced and revenue recognised according to the substance of the service concession arrangement.

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## **City of Mbombela**

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

### **Accounting Policies**

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#### **1.33 Investments in controlled entities**

Controlled entity is an entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the controlling entity). Controlling entity is an entity that has one or more controlled entities.

In the municipality's separate financial statements, investments in investments in controlled entities are carried at cost less any accumulated impairment. The municipality applies the same accounting for each category of investment.

The cost of an investment in controlled entity is the aggregate of the fair value at the date of exchange of assets given, liabilities incurred or assumed and equity instruments issued by the municipality plus any costs directly attributable to the purchase price of the controlled entity

#### **1.34 Accumulated surplus**

The municipality's surplus or deficit for the year is accounted in the accumulated surplus in the statement of changes in net assets.

#### **1.35 Share capital / contributed capital**

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.



# City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

## Notes to the Audited Annual Financial Statements

Figures in Rand

### 2. Inventories

Consumable stores	17,536,668	15,591,154
Water in the reservoirs and reticulation system	232,193	224,321
Land held for sale	9,375,803	3,285,410
	<b>27,144,664</b>	<b>19,100,885</b>

### Inventory pledged as security

There were no inventories pledged as security during the reporting period.

### 3. Operating lease asset (accrual)

Current assets	90,708	430,484
Non-current liabilities	(233,676)	(795,725)
	<b>(142,968)</b>	<b>(365,241)</b>

### 4. Other receivables from exchange transactions

Prepayments	1,642,064	-
Fruitless and Wasteful Expenditure Receivables	273,742	6,143,401
Merchandising, jobbing and contracts	29,959,695	27,152,992
	<b>31,875,501</b>	<b>33,296,393</b>

### 5. Trade receivables from non-exchange transactions

Traffic fines	7,578,407	3,966,581
R/D Cheques	1,907,611	2,179,575
Property rates	107,714,628	83,061,763
	<b>117,200,646</b>	<b>89,207,919</b>

### Gross balances

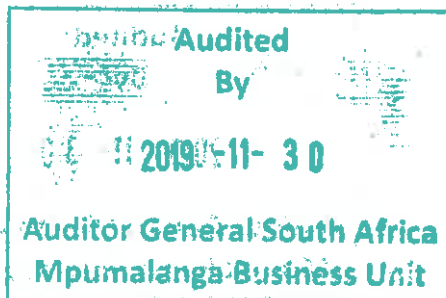
Property rates	181,995,674	169,366,862
Traffic fines	62,796,761	121,236,962
R/D Cheques	1,907,611	2,179,575
	<b>246,700,046</b>	<b>292,783,399</b>

### Less: Allowance for impairment

Property rates	(74,281,046)	(86,305,099)
Traffic fines	(55,218,354)	(117,270,381)
	<b>(129,499,400)</b>	<b>(203,575,480)</b>

### Net balance

Property rates	107,714,628	83,061,763
Traffic fines	7,578,407	3,966,581
R/D Cheques	1,907,611	2,179,575
	<b>117,200,646</b>	<b>89,207,919</b>



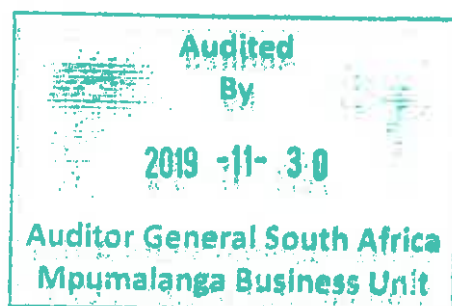
# City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

## Notes to the Audited Annual Financial Statements

Figures in Rand	2019	2018
<b>Rates</b>		
Current (0 -30 days)	32,141,046	39,070,847
31 - 60 days	16,781,571	10,423,265
61 - 90 days	14,396,722	10,685,350
91 - 120 days	13,046,381	3,494,109
121 - 365 days	42,660,704	20,851,280
> 365 days	62,969,250	84,842,011
	<b>181,995,674</b>	<b>169,366,862</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	203,575,480	213,591,014
Contributions to allowance	-	63,874,976
Reversal of allowance	(74,076,080)	(73,890,510)
	<b>129,499,400</b>	<b>203,575,480</b>
<b>6. Value Added Tax (VAT) receivable</b>		
Value Added Tax (VAT)	114,390,127	87,311,621
VAT is receivable on the cash basis.		
<b>7. Trade receivables from exchange transactions</b>		
<b>Gross balances</b>		
Electricity	154,151,954	155,690,641
Water	40,090,989	31,346,078
Waste water	7,626,241	9,272,527
Refuse	34,602,577	40,548,899
Service charges	16,151,508	39,181,800
	<b>252,623,269</b>	<b>276,039,945</b>
<b>Less: Allowance for impairment</b>		
Electricity	(30,987,016)	(43,587,158)
Water	(19,687,985)	(14,130,514)
Waste water	(4,066,834)	(5,204,280)
Refuse	(21,108,973)	(27,215,171)
Service charges	(10,675,074)	(33,542,500)
	<b>(86,525,882)</b>	<b>(123,679,623)</b>
<b>Net balance</b>		
Electricity	123,164,938	112,103,483
Water	20,403,004	17,215,564
Waste water	3,559,407	4,068,247
Refuse	13,493,604	13,333,728
Service charges	5,476,434	5,639,300
	<b>166,097,387</b>	<b>152,360,322</b>



## City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

### Notes to the Audited Annual Financial Statements

Figures in Rand

	2019	2018
<b>Electricity</b>		
Current (0 -30 days)	102,774,834	95,051,171
31 - 60 days	12,055,627	7,868,394
61 - 90 days	8,631,410	8,035,575
91 - 120 days	6,584,145	699,225
121 - 365 days	19,888,629	3,491,350
> 365 days	4,217,309	40,544,926
	<b>154,151,954</b>	<b>155,690,641</b>
<b>Water</b>		
Current (0 -30 days)	13,673,010	12,094,731
31 - 60 days	5,722,733	3,320,402
61 - 90 days	3,411,808	3,366,826
91 - 120 days	3,788,320	365,356
121 - 365 days	11,089,411	1,302,339
> 365 days	2,405,707	10,896,424
	<b>40,090,989</b>	<b>31,346,078</b>
<b>Waste water</b>		
Current (0 -30 days)	1,527,107	3,721,308
31 - 60 days	1,264,400	1,369,168
61 - 90 days	724,971	1,370,859
91 - 120 days	819,571	89,332
121 - 365 days	2,326,902	422,772
> 365 days	963,290	2,299,088
	<b>7,626,241</b>	<b>9,272,527</b>
<b>Refuse</b>		
Current (0 -30 days)	8,268,620	11,623,990
31 - 60 days	4,765,298	3,630,682
61 - 90 days	4,277,623	3,458,226
91 - 120 days	3,961,767	316,107
121 - 365 days	9,865,695	1,392,084
> 365 days	3,463,574	20,127,810
	<b>34,602,577</b>	<b>40,548,899</b>
<b>Service charges</b>		
Current (0 -30 days)	3,579,213	4,089,137
31 - 60 days	1,818,693	1,654,213
61 - 90 days	1,731,548	1,695,238
91 - 120 days	1,760,440	64,309
121 - 365 days	5,158,866	472,373
> 365 days	2,102,748	31,206,530
	<b>16,151,508</b>	<b>39,181,800</b>



## City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

### Notes to the Audited Annual Financial Statements

Figures in Rand	2019	2018
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	78,568,528	87,071,779
31 - 60 days	17,686,522	10,956,461
61 - 90 days	14,051,070	11,023,820
91 - 120 days	13,640,729	229,662
121 - 365 days	31,490,394	2,595,345
> 365 days	10,106,533	93,872,936
	<b>165,543,776</b>	<b>206,760,003</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	50,999,650	58,336,953
31 - 60 days	14,362,198	10,422,201
61 - 90 days	11,764,335	9,847,687
91 - 120 days	10,836,148	242,734
121 - 365 days	28,746,996	1,911,937
> 365 days	14,499,399	43,413,551
	<b>131,208,726</b>	<b>124,175,063</b>
<b>National and provincial government</b>		
Current (0 -30 days)	32,395,653	35,297,180
31 - 60 days	10,359,601	7,968,411
61 - 90 days	7,358,677	7,740,567
91 - 120 days	5,483,748	5,636,991
121 - 365 days	30,752,816	23,424,916
> 365 days	51,515,947	35,413,676
	<b>137,866,442</b>	<b>115,481,741</b>
<b>Total</b>		
Current (0 -30 days)	161,963,831	180,705,912
31 - 60 days	42,408,321	29,347,073
61 - 90 days	33,174,082	28,612,074
91 - 120 days	29,960,625	6,109,387
121 - 365 days	90,990,206	27,932,198
> 365 days	76,121,879	172,700,163
	<b>434,618,944</b>	<b>445,406,807</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	123,679,623	169,512,752
Reversal of allowance	(37,153,741)	(45,833,129)
	<b>86,525,882</b>	<b>123,679,623</b>
<b>8. Deposits</b>		
Other deposits	582,477	582,477
Deposits - Eskom	4,604,342	4,173,342
	<b>5,186,819</b>	<b>4,755,819</b>



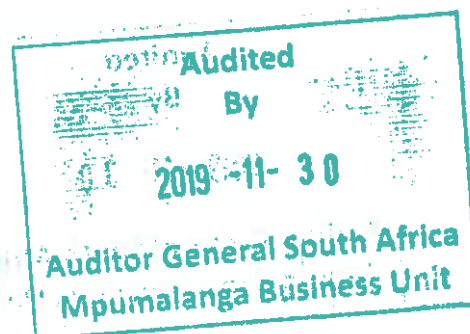
## City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

### Notes to the Audited Annual Financial Statements

Figures in Rand	2019	2018
<b>9. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	87,085	78,085
Bank balances	125,963,630	83,592,502
Short-term deposits	-	10,232,205
<b>Total cash</b>	<b>126,050,715</b>	<b>93,902,792</b>



# City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

## Notes to the Audited Annual Financial Statements

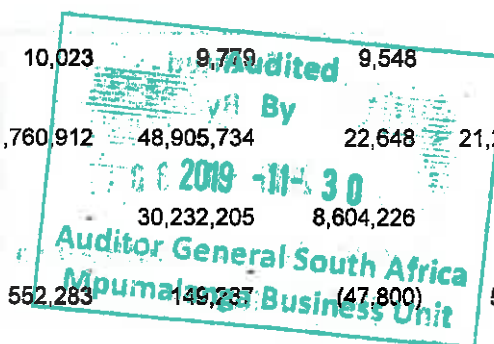
Figures in Rand

2019

2018

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
Primary Bank Acc - ABSA Mbombela: Account Number: 40-90003-9447	83,919,761	2,000,000	22,296,646	103,506,683	7,407,252	30,649,230
Spiral Plan - Bank: ABSA Mbombela: Account Number: 90- 6703-3766	-	4,490	4,486	-	4,490	-
Saving Account - Bank: ABSA Mbombela: Account Number: 90- 6916-6741	-	968	1,006	-	968	-
Call Account (Water Deposits) - Bank: ABSA Mbombela: Account Number: 90-6983-8617	4,668	4,612	4,580	4,668	4,612	4,580
Call Account (Grant Funding) - Bank: ABSA Mbombela: Account Number: 90-6983-9003	-	92,721	91,573	-	92,721	91,569
Call Account (Service Contribution) - Bank: ABSA Mbombela: Account Number: 90- 7568-1173	301,800	292,346	283,485	631,169	621,715	335,836
Call Account (Taxi Disaster) - Bank: ABSA Mbombela: Account Number: 91-2727-3547	-	28,949	28,503	-	28,949	28,466
Call Account (Grants) - Bank: ABSA Mbombela - Account Number: 40-8341-7222	6,811	9,117	46,731	6,811	9,117	46,477
Primary Bank Acc - ABSA Mbombela: Account Number: 40- 5321-5785	200,000	200,000	2,844,410	(24,342)	675,522	(6,318,730)
Mbombela Mayoral Fund - Bank: ABSA Mbombela: Account Number: 40-788-9377	-	10,530	10,423	-	10,530	10,410
Call Account (Mbombela 2010 Host City) - Bank: ABSA Mbombela: Account Number: 40- 7502-7970	-	6,297	6,041	-	6,297	6,017
Call Account (Mbombela 2010 Fan Park Operator) - Bank: ABSA Mbombela: Account Number: 40-7611-2661	-	1,363	1,308	-	1,363	1,302
Cheque Account (White River Disaster Fund) - 40-5141-9472	-	31,899	30,291	-	31,899	30,285
Cheque Account (Mbombela Conditional Grants) - 40-7804-8048	-	10,055	9,532	-	10,055	9,496
Call Account (Lottery Distribution Trust Fund Mbombela) - 40-6856-1426	10,023	9,779	9,548	9,905	9,779	9,524
Cheque Account - Bank: ABSA, Prime Link Account: Account Number: 40-6653-7243	21,760,912	48,905,734	22,648	21,234,348	68,905,735	22,645
Bank: ABSA Mbombela - Account Number: 20-7400-3363	30,232,205	8,604,226	(5,561)	10,226,643	8,604,226	
Petty cash	87,085	78,085	75,085			
First National Bank - Barberton - Account number: 5160026441	552,283	149,237	(47,800)	552,283	5,796,071	(9,748,958)





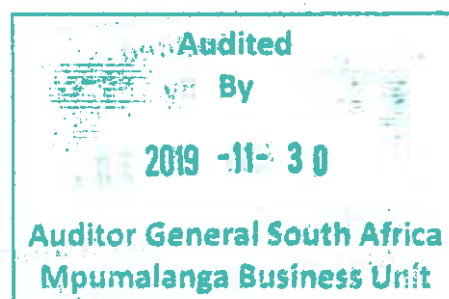
# City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

## Notes to the Audited Annual Financial Statements

Figures in Rand				2019	2018	
ABSA Bank - Mbombela Traffic Account - 10-7000-0209	-	-	-	37,665	(29,011)	(4,400)
First National Bank - Barberton - Account number: 62305845995	41	41	41	41	41	41
First National Bank - Barberton - Account number: 62305846612	113	114	114	114	114	113
First National Bank - Barberton - Account number: 62305846935	728	728	728	728	728	728
First National Bank - Barberton - Account number: 62305847222	24	24	24	24	24	24
First National Bank - Barberton - Account number: 62000772229	268	255	44	44	44	21
First National Bank - Barberton - Account number: 62000774704	117	111	447	(1,407)	(1,407)	(107)
ABSA Bank - Barbeton - 40-7085-2360	-	9,632	-	10,400	10,400	10,400
First National Bank - Barberton - Account Number: 6227140826	56	56	-	56	56	-
<b>Total</b>	<b>106,757,605</b>	<b>82,001,263</b>	<b>34,249,035</b>	<b>126,050,714</b>	<b>93,902,792</b>	<b>23,864,280</b>



**City of Mbombela**

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

**Notes to the Audited Annual Financial Statements**

Figures in Rand	2019	2018
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**10. Investment property**

	2019			2018		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	355,215,226	(24,768,857)	330,446,369	355,087,733	(22,656,853)	332,430,880

**Reconciliation of investment property - 2019**

	Opening balance	Transfers received	Depreciation	Total
Investment property	332,430,880	127,494	(2,112,005)	330,446,369

**Reconciliation of investment property - 2018**

	Opening balance	Disposals	Transfers received	Transfers	Depreciation	Total
Investment property	336,716,575	(2,604,000)	1,030,311	(600,000)	(2,112,006)	332,430,880

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

**Amounts recognised in surplus or deficit**

Rental revenue from Investment property	2,701,002	2,609,249
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# City of Mbombela

(Registration number MP326)  
Audited Annual Financial Statements for the year ended 30 June 2019

## Notes to the Audited Annual Financial Statements

Figures in Rand

### 11. Property, plant and equipment

	2019			2018		
	Cost	Accumulated depreciation and impairment	Carrying value	Cost	Accumulated depreciation and impairment	Carrying value
Land	631,419,320	-	631,419,320	637,667,026	-	637,667,026
Buildings	1,517,389,093	(669,622,901)	847,766,192	1,496,733,025	(611,624,964)	885,108,061
Equipment and machinery	46,933,345	(23,048,813)	23,884,532	44,972,722	(18,293,141)	26,679,581
Furniture and equipment	73,981,065	(42,279,052)	31,702,013	71,479,057	(37,431,590)	34,047,467
Transport assets	203,063,863	(165,628,912)	37,434,951	188,683,928	(147,432,979)	41,250,949
Computer equipment	42,147,885	(25,212,785)	16,935,100	41,383,337	(21,257,838)	20,125,499
Roads, pavements and stormwater	3,293,738,391	(1,735,079,785)	1,558,658,606	3,119,350,209	(1,496,717,136)	1,622,633,073
Construction Work-in-progress	1,071,344,213	-	1,071,344,213	841,361,211	-	841,361,211
Waste management	55,205,780	(11,492,178)	43,713,602	54,780,316	(10,435,061)	44,345,255
Electricity	1,269,329,489	(717,803,696)	551,525,793	1,260,443,371	(663,185,241)	597,258,130
Leased assets	8,069,824	(6,878,823)	1,191,001	8,069,824	(3,846,156)	4,223,668
Waste water	1,120,364,805	(474,279,842)	646,084,963	1,106,113,134	(434,320,695)	671,792,439
Water	2,664,390,971	(961,397,284)	1,702,993,687	2,619,321,168	(886,863,760)	1,732,457,408
Library	32,925,736	(5,195,977)	27,729,759	21,777,245	(4,310,648)	17,466,597
<b>Total</b>	<b>12,030,303,780</b>	<b>(4,837,920,048)</b>	<b>7,192,383,732</b>	<b>1,512,135,573</b>	<b>(4,335,719,209)</b>	<b>7,176,416,364</b>

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By

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Mpumalanga Business Unit

# City of Mbombela

(Registration number MP326)  
Audited Annual Financial Statements for the year ended 30 June 2019

## Notes to the Audited Annual Financial Statements

Figures in Rand

### Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers in	Transfers out	Donations	Change in accounting estimate	Depreciation	Total
Land	637,667,026	-	-	-	(6,247,706)	-	-	-	631,419,320
Buildings	885,108,061	1,511,094	-	19,144,974	-	-	-	(57,997,937)	847,766,192
Machinery and machinery	26,679,581	1,960,623	-	-	-	-	-	(4,755,672)	23,884,532
Furniture and equipment	34,047,467	2,510,009	(7,879)	-	-	-	-	(4,847,584)	31,702,013
Transport assets	41,250,949	15,469,833	(269,257)	-	-	-	-	(19,016,574)	37,434,951
Computer equipment	20,125,499	1,165,717	(194,935)	-	-	-	-	(4,161,181)	16,935,100
Roads, pavements and stormwater	1,622,633,073	105,435,817	-	68,952,365	-	-	-	(238,362,649)	1,558,658,606
Construction Work-in-progress	841,361,211	355,327,696	-	-	(125,344,694)	-	-	-	1,071,344,213
Waste management	44,345,255	-	-	-	-	-	425,464	(1,057,117)	43,713,602
Electricity	597,258,130	5,786,730	-	3,099,389	-	-	-	(54,618,456)	551,525,793
Leased assets	4,223,668	-	-	-	-	-	-	(3,032,667)	1,191,001
Waste water	671,792,439	3,396,079	-	10,855,591	-	-	-	(39,959,146)	646,084,963
Water	1,732,457,408	21,777,428	-	23,292,375	-	-	-	(74,533,524)	1,702,993,687
Library	17,466,597	-	-	-	-	11,148,491	-	(885,329)	27,729,759
	<b>7,176,416,364</b>	<b>514,341,026</b>	<b>(472,071)</b>	<b>125,344,694</b>	<b>(131,592,400)</b>	<b>11,148,491</b>	<b>425,464</b>	<b>(503,227,836)</b>	<b>7,192,383,732</b>

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Auditor General South Africa  
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# City of Mbombela

(Registration number MP326)  
Audited Annual Financial Statements for the year ended 30 June 2019

## Notes to the Audited Annual Financial Statements

Figures in Rand

### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers in	Transfers out	Change in accounting estimates	Depreciation	Total
Land	641,382,747	-	-	-	(3,715,721)	-	-	637,667,026
Buildings	947,566,388	-	-	-	-	-	(62,458,327)	885,108,061
Machinery and machinery	29,780,975	1,415,114	(43,720)	-	-	-	(4,472,788)	26,679,581
Furniture and equipment	38,224,050	782,589	(192,387)	-	-	-	(4,766,785)	34,047,467
Transport assets	55,560,948	5,297,013	(910,623)	-	-	-	(18,696,389)	41,250,949
Computer equipment	24,621,283	311,762	(122,942)	-	-	-	(4,684,604)	20,125,499
Roads, pavements and stormwater	1,755,751,939	36,256,136	(25,989)	52,154,824	-	-	(221,503,837)	1,622,633,073
Construction Work-in-progress	588,189,094	377,842,117	-	-	(124,670,000)	-	-	841,361,211
Waste management	41,844,962	-	-	-	-	3,510,293	(1,010,000)	44,345,255
Electricity	634,104,557	19,551,288	(22)	8,296,843	-	-	(64,694,336)	597,258,130
Leased Assets	5,554,898	2,031,317	(606,118)	-	-	-	(2,756,429)	4,223,668
Waste water	715,004,315	-	-	-	-	-	(43,211,876)	671,792,439
Water	1,700,640,341	38,271,607	-	64,218,533	-	-	(70,673,073)	1,732,457,408
Library	18,133,175	-	-	-	-	-	(666,578)	17,466,597
	<b>7,196,359,672</b>	<b>481,758,943</b>	<b>(1,901,801)</b>	<b>124,670,000</b>	<b>(128,385,721)</b>	<b>3,510,293</b>	<b>(499,595,022)</b>	<b>7,176,416,364</b>

Compensation received for losses on property, plant and equipment – included in operating profit.

Plant and machinery	-	4,599
Transport assets	165,678	-
Office equipment	131,807	94,747
Roads, pavements and stormwater	-	260,907
Bearer plants	-	1,400,501
	<b>297,485</b>	<b>1,760,754</b>

**Audited**

**By**

**2019 -11- 30**

**Auditor General South Africa**  
**Mpumalanga Business Unit**

# City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

## Notes to the Audited Annual Financial Statements

Figures in Rand	2019	2018
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### Property, plant and equipment in the process of being constructed or developed

#### Cumulative expenditure recognised in the carrying value of property, plant and equipment

Roads, Pavements, Bridges and Stormwater Infrastructure	508,333,900	378,627,068
Water Reservoirs and Reticulation Infrastructure	322,407,760	264,598,348
Electricity Infrastructure	36,807,927	14,383,491
Buildings	103,140,756	93,632,265
Waste Water Infrastructure	100,653,870	90,120,042
	<b>1,071,344,213</b>	<b>841,361,214</b>

#### Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected

<b>Roads, Pavements, Bridges and Stormwater Infrastructure</b>	<b>34,294,195</b>	<b>57,734,285</b>
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These projects were delayed due to the internal or institutional inefficiencies which has caused a gap between the appointment of consultants and contractors, inadequate community buy in on projects that does not create local employment opportunities and local empowerment in terms of subcontracting and reduction of grant funding those respective projects

<b>Water Reservoirs and Reticulation Infrastructure</b>	<b>23,433,173</b>	<b>59,370,513</b>
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The projects were mainly delayed due to various factors including but not limited to commissioning of projects due to water rights application challenges, land disputes where the project must be implemented, delay on the electricity (power) connection, community unrests, environmental compliance assessments and the internal inefficiencies which has caused a gap between appointment of consultants and contractors.

<b>Electricity Infrastructure</b>	<b>5,666,407</b>	<b>9,563,283</b>
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The projects were mainly delayed due to inability to secure funding on time, internal deficiencies which has caused a gap between appointment of consultants and contractors

<b>Waste Water Infrastructure</b>	<b>6,063,608</b>	<b>11,792,527</b>
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The projects were mainly delayed due to various factors including but not limited to one appointment made by the Department of Co-Operative Governance and Traditional Affairs which was declared as irregular expenditure and the City has communicated with the Department requesting withdrawal of the project in order to follow the normal Supply Chain Management processes internally, community unrests, environmental compliance assessments and the internal inefficiencies which has caused a gap between appointment of consultants and contractors.

<b>69,457,383</b>	<b>138,460,608</b>
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#### Carrying value of property, plant and equipment where construction or development has been halted either during the current or previous reporting period(s)

Water Project	1,010,743	1,010,743
The project was halted due to lack of water rights		
	<b>1,010,743</b>	<b>1,010,743</b>

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# City of Mbombela

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Audited Annual Financial Statements for the year ended 30 June 2019

## Notes to the Audited Annual Financial Statements

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### Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Included within Other PPE	Total
Opening balance	747,728,949	93,632,264	841,361,213
Additions/capital expenditure	326,674,228	28,653,465	355,327,693
Transferred to completed items	(106,199,719)	(19,144,974)	(125,344,693)
	<b>968,203,458</b>	<b>103,140,755</b>	<b>1,071,344,213</b>

### Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Other PPE	Total
Opening balance	888,370,694	71,445,985	959,816,679
Additions/capital expenditure	353,029,860	24,812,259	377,842,119
Reclassification / Correction of an accounting error	(369,001,605)	(2,625,979)	(371,627,584)
Transferred to completed items	(124,670,000)	-	(124,670,000)
	<b>747,728,949</b>	<b>93,632,265</b>	<b>841,361,214</b>

### Expenditure incurred to repair and maintain property, plant and equipment

#### Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Contracted services	228,426,992	204,067,021
Inventory	12,768,240	11,369,522
	<b>241,195,232</b>	<b>215,436,543</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 12. Intangible assets

	2019			2018		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Licenses and franchises	799,130	(777,805)	21,325	799,130	(777,805)	21,325
Computer software	17,519,584	(6,625,632)	10,893,952	16,899,527	(5,385,419)	11,514,108
Servitudes	4,590,568	-	4,590,568	4,590,568	-	4,590,568
<b>Total</b>	<b>22,909,282</b>	<b>(7,403,437)</b>	<b>15,505,845</b>	<b>22,289,225</b>	<b>(6,163,224)</b>	<b>16,126,001</b>

### Reconciliation of intangible assets - 2019

	Opening balance	Additions	Disposals	Amortisation	Total
Licenses and franchises	21,325	-	-	-	21,325
Computer software	11,514,108	620,057	-	(1,240,213)	10,893,952
Servitudes	4,590,568	-	-	-	4,590,568
	<b>16,126,001</b>	<b>620,057</b>	<b>-</b>	<b>(1,240,213)</b>	<b>15,505,845</b>

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## City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

### Notes to the Audited Annual Financial Statements

Figures in Rand	2019	2018
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#### Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Licenses and franchises	264	21,061	-	21,325
Computer software	11,457,159	1,224,401	(1,167,452)	11,514,108
Servitudes	4,590,568	-	-	4,590,568
	<b>16,047,991</b>	<b>1,245,462</b>	<b>(1,167,452)</b>	<b>16,126,001</b>

A register containing the information required by section 63 of the MFMA is available for inspection at the registered office of the municipality. No Intangible assets were pledged as security for liabilities.



# City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

## Notes to the Audited Annual Financial Statements

Figures in Rand

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### 13. Heritage assets

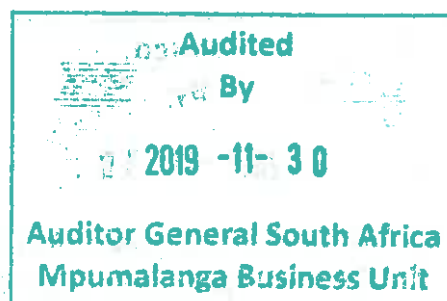
	2019			2018		
	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value
Historical monuments	485,639	-	485,639	485,639	-	485,639
Historical buildings	436,805	(235,147)	201,658	436,805	(235,147)	201,658
Stamp collections, military insignia, medals, coin	186,585	-	186,585	186,585	-	186,585
Recreational parks	1,428,088	-	1,428,088	1,428,088	-	1,428,088
<b>Total</b>	<b>2,537,117</b>	<b>(235,147)</b>	<b>2,301,970</b>	<b>2,537,117</b>	<b>(235,147)</b>	<b>2,301,970</b>

#### Reconciliation of heritage assets 2019

	Opening balance	Additions	Disposals	Transfers received	Impairment losses recognised	Total
Historical monuments	485,639	-	-	-	-	485,639
Historical buildings	201,658	-	-	-	-	201,658
Stamp collections, military insignia, medals, coin	186,585	-	-	-	-	186,585
Recreational parks	1,428,088	-	-	-	-	1,428,088
<b>Total</b>	<b>2,301,970</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,301,970</b>

#### Reconciliation of heritage assets 2018

	Opening balance	Additions	Disposals	Transfers received	Impairment losses recognised	Total
Historical monuments	485,639	-	-	-	-	485,639
Historical buildings	201,658	-	-	-	-	201,658
Stamp collections, military insignia, medals, coin	186,585	-	-	-	-	186,585
Recreational parks	1,428,088	-	-	-	-	1,428,088
<b>Total</b>	<b>2,301,970</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,301,970</b>



## City of Mbombela

(Registration number MP326)

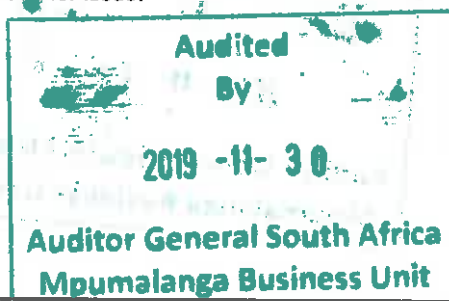
Audited Annual Financial Statements for the year ended 30 June 2019

### Notes to the Audited Annual Financial Statements

Figures in Rand	2019	2018
<b>14. Investments</b>		
<b>At amortised cost</b>		
Investments	100	18,397,643
<b>Non-current assets</b>		
At amortised cost	100	18,397,643
<b>15. Long-term receivables</b>		
Long term receivables	2,531,548	3,792,810
Current portion of long term receivables	149,186	758,379
	<b>2,680,734</b>	<b>4,551,189</b>
<b>16. Interest Bearing Borrowings</b>		
<b>At amortised cost</b>		
Development Bank of South Africa R200 million	128,155,725	147,045,247
This loan bears interest at 12.62% and is payable bi-annually installments		
Development Bank of South Africa R138.6 million	133,797,889	136,847,744
This loan bears interest at 12.62% and is payable bi-annually installments		
Development Bank of South Africa R21.6 million	-	10,279,209
This loan bears interest at 10.74% and is payable bi-annually installments		
Standard Bank - R25 million	4,424,426	5,746,974
This loan bears interest at 10.50% and is payable bi-annually installments		
DBSA Infrastructure L122	-	212,298
This loan bears interest at 15 % and is repayable in bi-annual installments		
DBSA Infrastructure L124	-	212,678
This loan bears interest at 16.5 % and is repayable in bi-annual installments		
Stock Loans@ 11.60%	3,000	3,000
	<b>266,381,040</b>	<b>300,347,150</b>
<b>Total interest bearing borrowings</b>	<b>266,381,040</b>	<b>300,347,150</b>
<b>Non-current liabilities</b>		
At amortised cost	213,180,419	242,213,202
<b>Current liabilities</b>		
At amortised cost	53,200,621	58,133,948

#### Defaults and breaches

A loan to DBSA with an amount of R 20 503 476 was in default as a result of not meeting capital repayment requirements as per the contractual arrangements. This was due to cash flow timing delays. The default was rectified before unaudited annual financial statements were authorised for issue.



## City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

### Notes to the Audited Annual Financial Statements

Figures in Rand	2019	2018
<b>17. Finance lease obligation</b>		
<b>Present value of minimum lease payments due</b>		
- within one year	2,818,416	4,639,134
- in second to fifth year inclusive		876,609
	<b>2,818,416</b>	<b>5,515,743</b>
 Non-current liabilities	-	876,609
Current liabilities	2,818,416	4,639,134
	<b>2,818,416</b>	<b>5,515,743</b>

The average lease term is 3 years and the average effective borrowing rate is 10.50%. Interest rates are fixed at the contract date. Some leases have fixed repayments terms. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.



# City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

## Notes to the Audited Annual Financial Statements

Figures in Rand

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### 18. Trade and other payables from exchange transactions

Trade payables and accruals	700,351,588	661,849,359
Payments made in advance	110,342,313	106,920,776
Salaries - Employee related costs	4,862,114	8,806,727
Retentions	86,392,043	83,948,007
Leave accrual	60,079,635	52,576,097
Bulk Water	140,010,420	121,294,890
Agency Fees Payable	324,646,672	158,789,017
Unallocated deposits	46,256,538	37,982,544
Bulk Electricity - Eskom	332,985,949	284,783,179
Bonus accrual	17,373,718	15,347,842
	<b>1,823,300,990</b>	<b>1,532,298,438</b>

### 19. Other payables from non - exchange transactions

Transfers payable	59,409,902	11,329,165
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### 20. Consumer deposits

Sewerage	8,768,560	5,928,076
Electricity	28,643,584	27,683,345
Water	2,731,358	3,185,592
Sports field and community halls	-	123,020
Housing rental	138,689	-
	<b>40,282,191</b>	<b>36,920,033</b>

### 21. Post employment benefits

#### Post employment health care employee benefit

The municipality provides for employees and continuation members to subscribe to a South African Local Government Association accredited medical aid scheme. Upon retirement an employee has the option of continued membership to the medical aid scheme. The municipality provides a 60% subsidy of medical scheme contribution to eligible in service and continuation members upon retirement.

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Opening balance	149,109,070	140,966,293
Current service costs	8,037,915	7,938,316
Interest costs	14,170,196	13,637,892
Actuarial loss / (gain)	1,850,266	(9,739,385)
Actual post-retirement health care benefits payments	(3,533,442)	(3,694,046)
	<b>169,634,005</b>	<b>149,109,070</b>
Non-current liabilities	165,363,557	144,778,791
Current liabilities	4,270,448	4,330,280
	<b>169,634,005</b>	<b>149,109,071</b>

The post employment benefit plan is wholly unfunded.



# City of Mbombela

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## Notes to the Audited Annual Financial Statements

Figures in Rand	2019	2018
<b>Net expense recognised in the statement of financial performance</b>		
Current service cost	8,037,915	7,938,316
Interest cost	14,170,196	13,637,892
Actuarial (gains) losses	1,850,266	(9,739,385)
Actual post-retirement health care benefits payments	(3,533,442)	(3,694,046)
	<b>20,524,935</b>	<b>8,142,777</b>

The medical aid benefit expense is included in employee remuneration.

### Assumptions for actuarial valuation

Assumptions made from the actuarial valuation as at 30 June 2019 were as follows:

Discount rate	9.56 %	9.64 %
Consumer inflation	5.49 %	10.00 %
Medical inflation	6.99 %	7.43 %
Maximum subsidy inflation rate	4.87 %	5.20 %
Expected retirement age (years)	62	63

### Discount rate

GRAP 25 requires that the discount rate be set based on the yields government bonds of appropriate term. The expected inflation assumption of 5.49% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (3.38%) and those of fixed interest bonds (9.56%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows:  $((1+9.56\%-0.50\%)/(1+3.38\%))-1$ .

A 1% change effect as included on the actuarial valuation reports.

	Decrease	Decrease
Health cost inflation effect on the current service cost	6,962,400	6,953,600
Health cost inflation effect on the defined benefit liability	106,805,000	134,914,000
Discount rate effect on the current service cost	9,918,500	9,837,200
Discount rate effect on the health care benefit liability	149,873,000	175,439,000
Health cost inflation effect on the current interest cost	12,802,800	12,399,700
Discount rate effect on the current service interest cost	14,974,800	14,494,000

	Increase	Increase
Health cost inflation effect on the current service cost	8,818,300	8,619,100
Health cost inflation effect on the defined benefit liability	136,911,000	159,520,000
Discount rate effect on the current service cost	6,594,500	6,486,400
Discount rate effect on the health care benefit liability	102,965,000	128,292,000
Health cost inflation effect on the current interest cost	15,172,800	14,502,800
Discount rate effect on the current interest cost	13,425,700	12,857,300

The amounts disclosed above represent a wholly unfunded defined benefit obligation.



## City of Mbombela

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### Notes to the Audited Annual Financial Statements

Figures in Rand	2019	2018
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#### 22. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG)	-	82,499,886
Integrated National Electrification Programme Grant (INEP)	-	1,128,856
Public Transport Network Grant (PTNG)	101,861,275	63,677,142
Municipal Systems Improvement Grant (MSIG)	22,020	9,216
Finance Management Grant (FMG)	279	-
Donations Taxi Disaster Grant	29,327	28,949
Energy Efficiency Demand Side Management Grant (EEDSM)	-	213,559
Municipal Disaster Relief Grant	-	86,833
National Lottery Grants	-	4,500,847
Expanded Public Works Programme Grant (EPWP)	-	1,063,540
	<b>101,912,901</b>	<b>153,208,828</b>





# City of Mbombela

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## Notes to the Audited Annual Financial Statements

Figures in Rand

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### 23. Provisions

#### Reconciliation of non-current portion of provisions - 2019

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	157,505,175	14,345,857	3,199,823	175,050,855
Long service awards	68,755,788	8,553,588	-	77,309,376
	<b>226,260,963</b>	<b>22,899,445</b>	<b>3,199,823</b>	<b>252,360,231</b>

#### Reconciliation of non-current portion of provisions - 2018

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	117,678,758	36,742,014	3,084,403	157,505,175
Long service awards	56,475,173	12,280,615	-	68,755,788
	<b>174,153,931</b>	<b>49,022,629</b>	<b>3,084,403</b>	<b>226,260,963</b>

Non-current liabilities

239,337,367

214,125,492

Current liabilities

13,022,864

12,135,471

**252,360,231**

**226,260,963**

#### Environmental rehabilitation

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal in accordance with the National Environmental Management Act 107 of 1998 and the Environment Conservation Act No 73 of 1989. The landfill sites are rehabilitated at the end of each useful life. It is calculated as the present value of the expenditure expected to be required to settle the future obligation to rehabilitate the landfill sites.

The discount rate used reflect the current market assessment of the time value of money and the risks specific to the liability. The valuation for the provision of the landfill sites was reviewed by an independent landfill site and environmental expert

#### Financial Assumptions used for the provision of landfill site

The financial assumptions used for the provision of landfill site rehabilitation at 30 June were as follows:

Adjustments of unit costs	4.64 %	4.48 %
Consumer Price Index (CPI)	4.64 %	4.48 %

#### Discount rate

Tekwane West and Barberton landfill sites	7.64 %	7.48 %
Mbombela and Mbonisweni landfill sites	7.14 %	6.98 %
Hazyview landfill site	7.14 %	6.98 %

#### Net effective discount rate (inflation linked bond rates) above Consumer Price Index (CPI)

Tekwane West and Barberton landfill sites	3.00 %	3.00 %
Mbombela and Mbonisweni landfill sites	2.50 %	2.50 %
Hazyview landfill site	2.50 %	2.50 %

#### Long service awards

In accordance with the bargaining collective agreement on conditions of service for the Mpumalanga division and municipal policy, the municipality makes provision for long service awards where employees have uninterrupted service of at least five (5) years.

# City of Mbombela

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## Notes to the Audited Annual Financial Statements

Figures in Rand	2019	2018
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The amounts recognised in the statement of financial position are as follows:

Opening balance	68,755,788	56,475,173
Current service costs	6,023,591	5,313,675
Interest costs	5,239,086	4,780,135
Actuarial gain	7,044,684	6,538,779
Expenditure incurred	(9,753,773)	(4,351,974)
	<b>77,309,376</b>	<b>68,755,788</b>

Net expense recognised in the statement of financial performance

Current service cost	6,023,591	5,313,675
Interest cost	5,239,086	4,780,135
Actuarial (gains) losses	7,044,684	6,538,779
Expenditure incurred	(9,753,773)	(4,351,975)
	<b>8,553,588</b>	<b>12,280,614</b>

### Assumptions for actuarial valuation

Assumptions made from the actuarial valuation as at 30 June 2019 were as follows:

Discount rate	8.16 %	8.13 %
Consumer inflation	4.56 %	10.00 %
Salary inflation	5.56 %	5.88 %

### Discount rate

GRAP 25 requires that the discount rate be set based on the yields government bonds of appropriate term. The expected inflation assumption of 4.56% was obtained from the differential between market yields on index-linked bonds (2.96%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.16%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as  $((1+8.16\%-0.50\%)/(1+2.96\%))-1$ .

A 1% change effect as included on the actuarial valuation report.

	<b>Decrease</b>	<b>Decrease</b>
Discount rate effect on the current service cost	6,474,200	5,874,700
Discount rate effect on the unfunded accrued liability	82,753,000	61,626,000
Discount rate effect on the interest cost	4,936,400	4,627,500
	<b>Increase</b>	<b>Increase</b>
Discount rate effect on the current service cost	5,628,100	58,774,700
Discount rate effect on the unfunded accrued liability	72,488,000	52,014,000
Discount rate effect on the interest cost	5,495,900	4,896,700

### 24. Other financial liabilities

Jobbing and contracts

3,853,005	4,053,040
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# City of Mbombela

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Audited Annual Financial Statements for the year ended 30 June 2019

## Notes to the Audited Annual Financial Statements

Figures in Rand	2019	2018
<b>25. Sale of goods and rendering of services</b>		
Advertisements	4,400,561	3,931,285
Amendments fees	4,048,695	3,836,528
Application Fees for Land Usage	2,608,470	9,368,491
Burial fees	880,592	703,480
Entrance fees	171,748	149,726
Fire services	148,998	213,592
Membership fees - library	115	2,908
Photocopies & faxes	161,314	139,814
	<b>12,420,493</b>	<b>18,345,824</b>
<b>26. Service charges</b>		
Sale of electricity	995,105,522	872,307,275
Sale of water	103,692,358	88,654,354
Solid waste	121,200,571	100,726,518
Sewerage and sanitation charges	21,829,633	27,221,550
	<b>1,241,828,084</b>	<b>1,088,909,697</b>
<b>27. Rental of facilities and equipment</b>		
Facilities and Equipment	11,676,380	9,878,092
<b>28. Agency services</b>		
<b>Department of Community Safety, Security and Liaison</b>		
Agency services	42,316,544	38,796,084
Revenue received on behalf of the Department	217,786,075	194,834,924
Less: Licence card fees	(3,264,393)	(3,128,892)
Less: VAT on agency fees	(6,347,482)	(5,547,443)
Less: Accruals and payments to the Departments	(165,857,656)	(147,362,505)
	<b>42,316,544</b>	<b>38,796,084</b>
<b>29. Licences and permits</b>		
Trading	1,000	1,665
Driver licence application fees	3,259,826	3,194,217
	<b>3,260,826</b>	<b>3,195,882</b>



# City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

## Notes to the Audited Annual Financial Statements

Figures in Rand	2019	2018
<b>30. Other income</b>		
Collection fees	5,672,467	3,450,636
Bad debts recovered	27,589,308	4,634,722
Municipal information and statistics	1,428,251	1,461,150
Insurance refund	316,800	1,935,007
Administration and management fees received	3,848,075	4,431,922
Commissions received	3,327,595	2,548,420
Revenue recognised from service contributions	8,423,478	3,242,258
Sale of property	-	320,000
Staff recoveries	3,888	42,544
Accident report	116,498	-
	<b>50,726,360</b>	<b>22,066,659</b>
<b>31. Finance income</b>		
Cash and cash equivalents	7,382,508	9,597,394
Receivables from exchange transactions	27,028,465	42,909,473
	<b>34,410,973</b>	<b>52,506,867</b>
<b>32. Gain or (loss) on impairment</b>		
Gain (loss) on impairment-receivables	50,838,131	92,388,517
<b>33. Property rates</b>		
<b>Rates received</b>		
Residential	360,682,812	269,574,560
Commercial	388,046,988	306,393,960
State	125,101,296	77,048,279
Agriculture	26,614,857	24,983,568
Other	3,608,605	3,714,156
Less: Income forgone	(272,794,868)	(216,041,075)
	<b>631,259,690</b>	<b>465,673,448</b>
<b>Valuations</b>		
Residential	39,558,742,751	28,655,494,814
Commercial	19,265,247,900	13,691,218,223
State	4,804,874,650	2,938,664,904
Municipal	1,440,394,770	19,622,500
Agriculture	11,553,420,600	7,508,185,830
Other	949,709,100	592,381,334
	<b>77,572,389,771</b>	<b>53,405,567,605</b>

The City compiled and certified the general valuation roll with effect from 1 July 2018. Valuations are performed every 5 years, in accordance with the Municipal Property Rates Act, 2004 which came into effect 1 July 2009.

A general rate of 0.009812 cent in a Rand (2018 : 0.009812) was applied to property valuations to determine property rates. Various rebates are granted to residential, business, agricultural and other properties and/or categories of owners in terms of the approved Property Rates By-Law. Rates are levied on a monthly basis on property owners. Interest at 11.25% per annum (2018 : 11.25%) is levied on outstanding rates.

# City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

## Notes to the Audited Annual Financial Statements

Figures in Rand

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### 34. Government grants and subsidies

#### Operating grants

Equitable share	661,329,001	608,678,000
Financial Management Grant	3,469,700	3,400,001
Municipal Systems Improvement Grant	1,032,980	-
Expanded Public Works Programme	8,240,000	5,650,460
Municipal Infrastructure Grant	24,980	14,793,727
Municipal Demarcation Grant	-	4,565,999
Public Transport Network Grant	89,604,268	53,884,654
	<b>763,700,929</b>	<b>690,972,841</b>

#### Capital grants

Municipal Infrastructure Grant	336,954,963	326,383,639
Energy Efficiency Demand Side Management	-	9,422,108
Neighbourhood Development Partnership Grant	29,160,871	38,135,000
Integrated National Electrification Programme	26,995,652	31,235,477
Water Services Infrastructure Grant	-	29,273,000
Public Transport Network Grant	69,443,575	94,111,204
	<b>462,555,061</b>	<b>528,560,428</b>
	<b>1,226,255,990</b>	<b>1,219,533,269</b>

#### Equitable Share

Equitable share	661,329,001	608,678,000
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This grant is unconditional and is partially utilised for the indigent support through provision of free basic services.

#### Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	82,499,886	125,004,259
Current-year receipts	336,980,000	339,939,000
Conditions met - transferred to revenue - capital	(293,001,105)	(283,205,263)
Conditions met - transferred to revenue - operating	(24,980)	(14,793,727)
Conditions met - transferred to revenue - VAT	(43,953,913)	(43,178,375)
Transferred to equitable share	(41,249,974)	(41,266,008)
Transferred to payables	(41,249,914)	-
	<b>-</b>	<b>82,499,886</b>

This grant was used to accelerate basic infrastructure backlogs for the benefit of poor households. The amount transferred to operating relates to projects budgeted for as capital and service delivery related but for financial reporting purposes the asset identification and recognition criteria is not met

#### Integrated National Electrification Programme Grant (INEP)

Balance unspent at beginning of year	1,128,856	779,659
Current-year receipts	31,045,000	31,000,000
Conditions met - transferred to revenue - capital	(26,995,653)	(26,103,336)
Conditions met - transferred to revenue - VAT	(4,049,348)	(3,767,807)
Transferred to equitable share	(1,128,855)	(779,660)
	<b>-</b>	<b>1,128,856</b>

The grant was used to address the electrification backlogs of occupied residential dwellings and the installation of bulk infrastructure, rehabilitation and refurbishment of electricity infrastructure in order to improve the quality of supply. The revenue recognised met the conditions of the grant.

# City of Mbombela

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Audited Annual Financial Statements for the year ended 30 June 2019

## Notes to the Audited Annual Financial Statements

Figures in Rand	2019	2018
<b>Public Transport Network Grant (PTNG)</b>		
Balance unspent at beginning of year	63,677,142	34,287,821
Current-year receipts	203,454,000	211,673,000
Conditions met - transferred to revenue - capital	(69,443,575)	(75,517,774)
Conditions met - transferred to revenue - operating	(68,858,897)	(53,884,654)
Conditions met - transferred to revenue - VAT	(20,745,371)	(18,593,430)
Transferred to equitable share	(6,222,024)	(34,287,821)
	<b>101,861,275</b>	<b>63,677,142</b>

The grant was used for accelerated planning, construction and improvement of public and non-motorised transport infrastructure and services. The revenue recognised met the conditions of the grant. The unspent amount of R 101 861 275 relating to the current financial year was not approved for roll over by National Treasury and will subsequently be set off against the Equitable share allocation trench for December 2019.

### Water Services Infrastructure Grant (WSIG)

Balance unspent at beginning of year	(3)	-
Current-year receipts	-	4,732,664
Conditions met - transferred to revenue - capital	-	29,273,000
Conditions met - transferred to revenue - operating	-	(25,663,000)
Conditions met - transferred to revenue - VAT	-	(3,610,001)
Transferred to equitable share	-	(4,732,666)
	<b>(3)</b>	<b>(3)</b>

### Neighbourhood Development Partnership Grant (NDPG)

Balance unspent at beginning of year	-	1,965
Current-year receipts	33,535,000	38,135,000
Conditions met - transferred to revenue - capital	(29,160,870)	(33,290,322)
Conditions met - transferred to revenue - VAT	(4,374,130)	(4,844,677)
Transferred to equitable share	-	(1,966)
	<b>-</b>	<b>-</b>

The grant was used to plan and invest in targeted locations in order to attract and sustain third party capital investment aimed at spatial transformation in under served neighbourhoods, specifically in townships. The revenue recognised met the conditions of the grant.



# City of Mbombela

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Audited Annual Financial Statements for the year ended 30 June 2019

## Notes to the Audited Annual Financial Statements

Figures in Rand

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### Municipal Demarcation Grant

Balance unspent at beginning of year	-	54,197
Current-year receipts	-	4,566,000
Conditions met - transferred to revenue	-	(3,980,440)
Conditions met - transferred to revenue - VAT	-	(585,560)
Transferred to equitable share	-	(54,194)
	-	-

### Municipal Systems Improvement Grant (MSIG)

Balance unspent at beginning of year	9,216	9,216
Current-year receipts	1,055,000	-
Conditions met - transferred to revenue	(1,032,980)	-
Transferred to equitable share	(9,216)	-
	22,020	9,216

The grant was used for the implementation of revenue enhancement strategy, strengthening administrative systems for effective implementation of ward participation system, financial systems support and improving municipal audit outcome. The unspent amount of R 22 020 relating to the current financial year was not approved for roll over by National Treasury and will subsequently be set off against the Equitable share allocation trench for December 2019.

### Finance Management Grant (FMG)

Current-year receipts	3,470,000	3,400,000
Conditions met - transferred to revenue	(3,469,721)	(3,400,000)
	279	-

The grant was used to promote and support financial management reforms through financial management internship reforms and in-house capacity building programmes. The revenue recognised met the conditions of the grant.

### Donations Taxi Disaster Grant

Balance unspent at beginning of year	28,949	28,466
Current-year receipts	378	483
	29,327	28,949

### Energy Efficiency Demand Side Management (EEDSM)

Balance unspent at beginning of year	213,559	35,685
Current-year receipts	-	11,000,000
Conditions met - transferred to revenue - capital	-	(9,422,108)
Conditions met - transferred to revenue - VAT	-	(1,364,333)
Transferred to equitable share	(213,559)	(35,685)
	-	213,559





## City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

### Notes to the Audited Annual Financial Statements

Figures in Rand	2019	2018
<b>Disaster Relief Grant</b>		
Balance unspent at beginning of year	86,833	86,833
Transferred to equitable share	(86,833)	-
	-	86,833
<b>National Lottery Grant</b>		
Balance unspent at beginning of year	4,500,847	4,500,593
Current-year receipts	-	254
Transferred to payables	(4,500,847)	-
	-	4,500,847
<b>Expanded Public Works Programme</b>		
Balance unspent at beginning of year	1,063,540	-
Current-year receipts	8,240,000	6,714,000
Conditions met - transferred to revenue	(8,240,000)	(5,650,460)
Transferred to equitable share	(1,063,540)	-
	-	1,063,540

The grant was used to expand labour intensive delivery methods in waste management, road maintenance and other programmes in accordance with the grant framework.

#### 35. Public contributions and donations

Donations	11,148,491	-
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This represent the value of library materials that were donated by the Mpumalanga Department of Culture, Sport and Recreation during the current financial year.

#### 36. Fines, Penalties and Forfeits

Building fines	6,339	-
Illegal connections fines	1,151,082	42,607
Overdue books fines	16,546	5,985
Municipal traffic fines	8,212,865	2,393,971
Unclaimed money forfeits	934,594	4,186,837
	10,321,426	6,629,400



# City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

## Notes to the Audited Annual Financial Statements

Figures in Rand

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### 37. Employee related costs

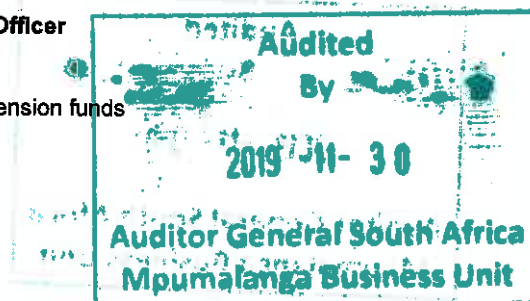
Basic salary and wages	476,740,701	426,241,211
Bonus	39,662,460	35,587,860
Social Contributions - Medical	40,340,550	37,723,521
Social Contributions - Unemployment Insurance Fund	3,446,145	3,441,436
Tools allowance	326,130	303,956
Payment in lieu of leave	8,812,552	5,437,376
Overtime	119,783,806	96,380,839
Defined benefit obligation	22,208,111	21,576,208
Social Contributions: Pension	95,266,222	83,465,017
Uniform/Special/Protective Clothing	149	11,888
Acting and post related allowances	3,247,260	2,209,117
Car allowance	46,433,441	44,096,223
Housing benefits and allowances	4,080,304	3,518,728
Long service award	18,307,361	16,885,566
Standby Allowance	16,923,550	16,246,904
Cellular and telephone	4,736,629	4,396,534
Actuarial gain on defined benefit liability	1,850,266	(9,739,385)
Social Contributions - Group Life Insurance	5,562,485	4,757,332
Social Contributions - Bargaining Council	200,716	191,417
Remuneration of General Manager - Office of Council	1,683,921	904,530
Overtime - Shift additional remuneration	6,783,526	5,303,149
Employee costs - Remuneration of the Municipal Manager	2,432,501	2,277,549
Remuneration of Deputy Municipal Manager - Service Delivery	1,933,850	2,059,824
Remuneration of Deputy Municipal Manager - Institutional Development	1,809,282	1,251,947
Remuneration of General Manager - City Planning	1,664,726	1,815,679
Remuneration of General Manager - Community Services	1,528,372	1,503,713
Remuneration of General Manager - Corporate Services	1,756,794	1,631,641
Remuneration of General Manager - Energy	1,836,807	1,531,127
Remuneration of General Manager - Public Safety	868,238	1,020,820
Remuneration of General Manager - Public works, Roads and Transport	1,634,698	905,450
Remuneration of General Manager - Regional Centre Coordination	1,541,784	1,020,820
Remuneration of General Manager - Strategic Management Services	544,976	1,468,454
Remuneration of General Manager - Water and Sanitation	1,369,172	1,203,015
Remuneration of Chief Financial Officer	1,631,955	226,188
	<b>936,949,440</b>	<b>816,855,654</b>

### Remuneration of Municipal Manager

Annual remuneration	2,043,335	1,904,284
Contributions to UIF, medical and pension funds	1,890	1,884
Car allowance	300,000	300,000
Cellphone allowance	76,378	71,381
Payment in lieu of leave	10,898	-
	<b>2,432,501</b>	<b>2,277,549</b>

### Remuneration of Chief Financial Officer

Annual remuneration	1,214,095	-
Contributions to UIF, medical and pension funds	153,385	-
Car allowance	196,000	-
Cellphone allowance	30,777	-
Acting & post related allowance	37,698	226,188
	<b>1,631,955</b>	<b>226,188</b>



## City of Mbombela

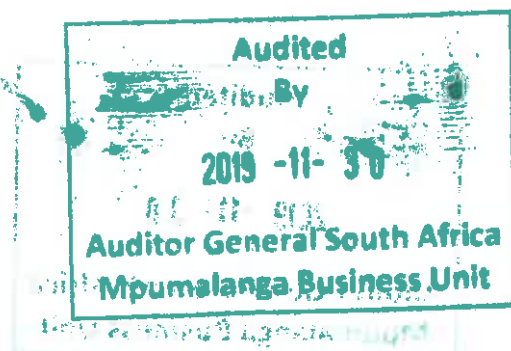
(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

### Notes to the Audited Annual Financial Statements

Figures in Rand	2019	2018
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The position of the Chief Financial Officer became vacant from 1 July 2017. The Co-Operative Governance and Traditional Affairs Department seconded an Acting Chief Financial Officer from Ehlanzeni District Municipality for a period of 18 months thereafter was appointed with effect from 1 September 2018 as per council resolution of 23 August 2018 under item B(1).



## City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

### Notes to the Audited Annual Financial Statements

Figures in Rand

	2019	2018
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#### Remuneration of General Manager - Strategic Management Services

Annual remuneration	451,654	885,614
Contributions to UIF, medical and pension funds	595	84,803
Cellphone allowance	12,727	30,022
Car allowance	80,000	202,559
Payment in lieu of leave		201,711
Acting & post related allowance		63,745
	<b>544,976</b>	<b>1,468,454</b>

Council has at its meeting held 28 of February 2019 under item number B(2), resolved on the appointment of the General Manager: Strategic Management with effect from the 1st of March 2019.

#### Remuneration of Deputy Municipal Manager - Institutional Development

Annual remuneration	1,429,103	978,893
Contributions to UIF, medical and pension funds	1,785	1,487
Car allowance	300,000	242,500
Cellphone allowance	38,181	29,067
Acting & post related allowance	40,213	-
	<b>1,809,282</b>	<b>1,251,947</b>

#### Remuneration of Deputy Municipal Manager - Service Delivery

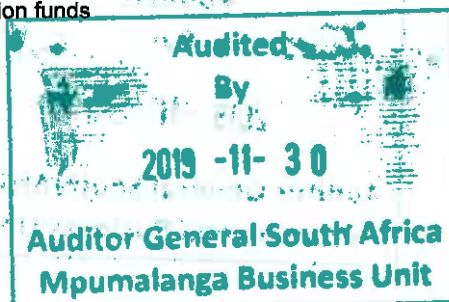
Annual remuneration	1,521,102	1,401,426
Contributions to UIF, medical and pension funds	1,785	1,785
Car allowance	353,290	376,842
Cellphone allowance	32,611	23,190
Acting & post related allowance	25,062	69,622
Payment in lieu of leave	-	186,959
	<b>1,933,850</b>	<b>2,059,824</b>

#### Remuneration of General Manager - Corporate Services

Annual remuneration	1,476,828	1,192,529
Contributions to UIF, medical and pension funds	1,785	19,267
Car allowance	240,000	240,000
Cellphone allowance	38,181	35,684
Acting & post related allowance	-	2,622
Payment in lieu of leave	-	141,539
	<b>1,756,794</b>	<b>1,631,641</b>

#### Remuneration of General Manager - Regional Centre Coordination

Annual remuneration	1,201,818	754,443
Contributions to UIF, medical and pension funds	1,785	1,338
Car allowance	300,000	236,706
Cellphone allowance	38,181	28,333
	<b>1,541,784</b>	<b>1,020,820</b>



## City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

### Notes to the Audited Annual Financial Statements

Figures in Rand	2019	2018
<b>Remuneration of General Manager - Public Works, Roads and Transport</b>		
Annual remuneration	1,336,948	702,328
Contributions to UIF, medical and pension funds	19,569	42,307
Car allowance	240,000	140,000
Cellphone allowance	38,181	20,815
	<b>1,634,698</b>	<b>905,450</b>
<b>Remuneration of General Manager - Energy</b>		
Annual remuneration	1,333,877	1,144,452
Contributions to UIF, Medical and Pension Funds	1,785	1,785
Car allowance	265,585	290,113
Cellphone allowance	26,115	19,325
Acting & post related allowance	-	75,452
Payment in lieu of leave	209,445	-
	<b>1,836,807</b>	<b>1,531,127</b>
<b>Remuneration of General Manager - Water and Sanitation</b>		
Annual remuneration	1,129,135	850,193
Contributions to UIF, medical and pension funds	1,487	169,902
Car allowance	200,000	152,898
Cellphone allowance	31,817	30,022
Payment in lieu of leave	6,733	-
	<b>1,369,172</b>	<b>1,203,015</b>
<b>Remuneration of General Manager - Community Services</b>		
Annual remuneration	1,170,622	1,010,101
Contributions to UIF, medical and pension funds	19,569	69,416
Car allowance	300,000	317,500
Cellphone allowance	38,181	37,988
Payment in lieu of leave	-	68,708
	<b>1,528,372</b>	<b>1,503,713</b>
<b>Remuneration of General Manager - Public Safety</b>		
Annual remuneration	592,393	754,443
Contributions to UIF, medical and pension funds	1,190	1,338
Cellphone allowance	22,272	28,333
Car allowance	175,000	236,706
Payment in lieu of leave	77,383	-
	<b>868,238</b>	<b>1,020,820</b>

The contract for the General Manager Public Works, Roads and Transport ended 31 January 2019.



# City of Mbombela

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Audited Annual Financial Statements for the year ended 30 June 2019

## Notes to the Audited Annual Financial Statements

Figures in Rand	2019	2018
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### Remuneration of General Manager - City Planning

Annual remuneration	1,397,355	1,114,860
Contributions to UIF, medical and pension funds	85,190	306,070
Car allowance	144,000	144,000
Cellphone allowance	38,181	35,684
Payment in lieu of leave	-	215,065
	<b>1,664,726</b>	<b>1,815,679</b>

### Remuneration of General Manager - Office of Council

Annual remuneration	1,354,962	742,674
Contributions to UIF, medical and pension funds	1,785	1,041
Car allowance	240,000	140,000
Cellphone allowance	38,181	20,815
Acting & post related allowance	48,994	-
	<b>1,683,922</b>	<b>904,530</b>

### 38. Remuneration of councillors

Executive Mayor	1,069,999	1,029,624
Mayoral Committee Members	7,909,787	7,640,450
Speaker	829,486	818,805
Councillors	26,341,757	25,621,144
Councillors pension contribution	2,556,456	2,573,195
Chief whip	758,645	738,605
	<b>39,466,130</b>	<b>38,421,823</b>

Remuneration paid to all councillors are within the upper limits set by the Minister for Co-Operative Governance and Traditional Affairs as per his vested power set out in the Remuneration of Public Office Bearers Act no 20 of 1998.

### In-kind benefits

The Executive Mayor, the Speaker and Members of the Mayoral Committee are full-time. Each is provided with an office and secretarial support at the cost of the Council. The Executive Mayor and Speaker have the use of a Council leased vehicle for official duties.

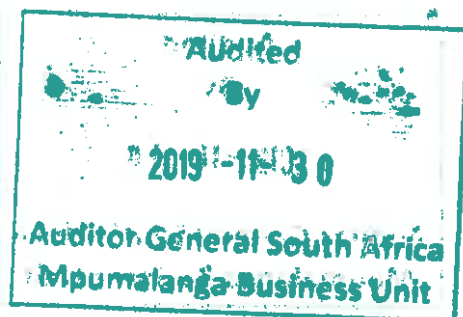
Council provided security at the private residences of the Executive Mayor and several other councillors through private security firms at the cost to Council based on the security risk assessment conducted.

### 39. Inventory consumed

Material and supplies	12,768,275	3,833,948
Consumables	37,574,970	42,919,927
	<b>50,343,245</b>	<b>46,753,875</b>

### 40. Depreciation and amortisation

Property, plant and equipment	503,227,837	499,595,023
Investment property	2,112,005	2,112,006
Intangible assets	1,240,913	1,167,452
	<b>506,580,755</b>	<b>502,874,481</b>



## City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

### Notes to the Audited Annual Financial Statements

Figures in Rand	2019	2018
<b>41. Finance costs</b>		
Borrowings	50,008,019	34,151,763
Trade and other payables	36,874,148	28,909,554
Finance leases	485,427	39,478
Bank	97,913	86,543
Other interest payable	3,199,823	3,084,403
	<b>90,665,330</b>	<b>66,271,741</b>
<b>42. Operating lease</b>		
Operating lease	8,097,143	6,797,111
<p>The City is leasing various buildings for office accommodation purposes and a fleet vehicle for the official trips of the Executive Mayor. These lease contracts have options for renewal on the terms and conditions agreed by all parties. The escalation rates ranges between 8-10 per cent respectively for the office accommodation leases.</p> <p>There is no contingent rent paid or payable on all the agreements.</p>		
<b>43. Bad debts written off</b>		
Bad debts written off	243,757,993	252,693,799
<b>44. Bulk purchases</b>		
Electricity - Eskom	708,306,998	666,785,960
Water	37,993,393	40,026,247
	<b>746,300,391</b>	<b>706,812,207</b>





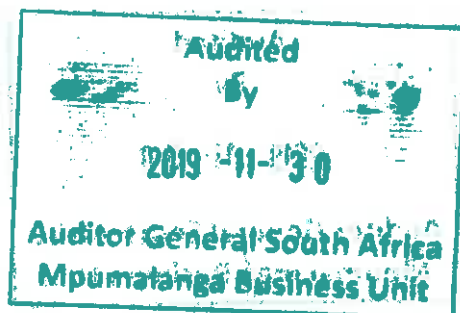
# City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

## Notes to the Audited Annual Financial Statements

Figures in Rand	2019	2018
<b>45. Contracted services</b>		
Refuse removal	31,772,310	25,495,539
Cleaning services	2,537,232	4,751,572
Burial services	4,206,475	3,587,801
Personal and labour	523,455	604,510
Meter management	11,830,461	10,257,212
Internal Auditors	7,516,412	1,776,900
Drivers licence cards	2,979,117	2,636,287
Mini dumping sites	29,066,408	21,126,251
Catering services	4,990,616	6,485,534
Contractors - Water and Sanitation Services	61,654,480	29,917,011
Human resources	8,706,648	3,822,215
Research and advisory	8,382,151	10,886,282
Connection/dis-connection: Electricity	-	991,470
Project management	31,321,232	24,196,408
Business and Advisory - Organisational	4,397,796	2,464,500
Illegal dumping	20,157,794	13,065,919
Hygiene services	59,783	205,230
Engineering - civil	70,606,835	55,824,952
Business and financial management	19,104,030	28,942,550
Accounting and auditing	11,263,299	8,017,508
Infrastructure and Planning - Town Planner	4,405,380	2,215,898
Laboratory services - Water	2,083,712	568,658
Legal Cost - Legal advice and litigation	10,734,291	7,330,620
Legal Cost - Collection	4,901	741,360
Legal Cost - Issue of Summons	1,504,291	539,521
Medical examinations	155,109	-
Transport services	443,590	113,864
Electrical	4,528,889	18,145,054
Fire protection	1,251,994	4,691,956
Gardening services	17,700,477	19,468,437
Contractors - Maintenance of buildings and facilities	24,853,120	22,067,710
Contractors - Maintenance of unspecified assets	142,912,924	112,822,406
Contractors - Maintenance of equipment	15,647,523	13,903,696
Traffic and street lights	188,547	2,530,942
Grading of sport fields	6,366,307	3,752,312
Graphic designers	-	27,435
Gas	-	4,897
Transportation	30,870	15,000
Security Services	56,462,015	54,501,955
Alien Vegetation Control	252,853	398,649
Event promoters	3,680,298	1,792,335
Sports and Recreation	780,351	83,180
Bore waterhole drilling	172,964	-
Litter picking and street cleaning	931,154	-
Medical waste removal	5,407	-
Personnel and Labour	170,180	-
Audio- Visual Services	114,400	172,812
Stage and sound crew	1,057,277	828,862
	<b>627,515,358</b>	<b>521,773,210</b>



## City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

### Notes to the Audited Annual Financial Statements

Figures in Rand	2019	2018
<b>46. Transfers and subsidies</b>		
Non-profit institutions	2,950,000	2,223,446
Social Assistance: Grant In Aid	58,990	28,275
Poverty relief	354,390	51,752
Bursaries	4,168,712	1,582,974
Free basic services - electricity	4,315,747	4,001,970
Free basic services - water	32,525,512	24,023,267
	<b>44,373,351</b>	<b>31,911,684</b>
<b>47. Operational costs</b>		
Advertising	4,162,704	3,726,222
Auditors remuneration	8,060,570	6,144,455
Bank charges	4,149,845	4,323,558
Materials and Supplies	1,056	-
Commission - Prepaid electricity	5,117,033	3,890,641
Entertainment	774,515	98,683
Vehicle tracking	1,000	-
Insurance 3rd party payments and excess	14,744,242	6,435,067
Information Technology Services	12,466,187	16,108,491
Workmen's Compensation Fund	3,804,460	3,599,122
Learnerships and Internships	6,513,626	5,128,175
Travel and subsistence	6,395,852	6,438,669
Skills Development Fund Levy	8,136,685	6,788,977
Signage	1,011,018	1,398,227
Postage and courier	2,092,709	2,403,986
Storage of Files (Archiving)	71,197	101,533
Uniform and protective clothing	3,814,909	4,916,022
Printing - Publications and books	750,369	536,703
Contribution to provisions - Rehabilitation of Landfill Sites	13,920,393	33,231,721
Honoraria (Voluntarily Workers)	30,000	27,500
Professional bodies, membership and subscription	9,027,903	7,848,455
Telephone and fax	13,264,740	12,450,792
Transport provided as part of departmental activities	1,036,456	1,392,663
Travel agency fees	262,632	303,625
Achievements and Awards	-	6,781
Title deed search fees	172,701	170,365
Municipal services	74,444,935	78,550,207
Licences - radio and television	65,834	42,032
Rewards Incentives	5,178,904	3,657,451
Registration fees	322,981	463,401
Samples & specimens	-	756,039
Vehicle tracking	3,418,057	3,729,990
Indigent relief	19,672,630	12,077,232
Remuneration to Ward Committees	4,957,000	5,107,029
Performers and arts	1,757,090	93,800
Licences	2,192,781	1,919,803
	<b>231,793,014</b>	<b>233,867,417</b>



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### Notes to the Audited Annual Financial Statements

Figures in Rand	2019	2018
<b>48. Cash generated from operations</b>		
Deficit for the year	(199,583,167)	(210,656,766)
<b>Adjustments for:</b>		
Depreciation and amortisation	506,580,755	502,874,481
Loss on disposal of property, plant and equipment	204,405	3,547,503
Public contributions and donations	(11,148,491)	-
Finance costs - Finance leases	485,427	39,478
Bad debts written off	243,757,993	252,693,799
Gain on reversal of Impairment of debtors	(50,838,131)	-
Movements in operating lease assets and accruals	(222,273)	136,056
Movements in retirement benefit assets and liabilities	20,524,934	8,142,778
Movements in provisions	25,673,803	52,107,032
<b>Changes in working capital:</b>		
Inventories	(1,924,257)	(1,216,836)
Other receivables from exchange transactions	1,420,892	(7,599,777)
Trade receivables from exchange transactions	(206,656,927)	(210,521,030)
Trade receivables from non-exchange transactions	(27,992,727)	(24,780,140)
Deposits	(431,000)	(45,000)
Trade and other payables from exchange transactions	291,002,542	208,554,666
Value Added Tax	(27,078,506)	(947,214)
Other payables from non - exchange transactions	48,080,737	1,428,766
Unspent conditional grants and receipts	(51,295,927)	(16,312,530)
Consumer deposits	3,362,158	2,326,351
Other financial liabilities	(200,035)	508,643
	<b>563,722,205</b>	<b>560,280,260</b>
<b>49. Auditors' remuneration</b>		
Fees	8,060,570	6,144,455



# City of Mbombela

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Audited Annual Financial Statements for the year ended 30 June 2019

## Notes to the Audited Annual Financial Statements

Figures in Rand	2019	2018
<b>50. Correction of Accounting error</b>		
Opening Balance as previously reported- Accumulated Surplus	- 5,872,542,198	
Correction of error - Net effect on opening accumulated surplus	- (51,133,306)	
	<b>- 5,821,408,892</b>	

The reported opening accumulated surplus has been adjusted with the following identified errors:

### Adjustments affecting the statement of financial position:

Additions to completed property, plant and equipment: electricity infrastructure previously expensed prior to 2016/2017 financial year	- 444,808
Additions to completed property, plant and equipment: electricity infrastructure projects completed in previous financial years	- 6,594,794
Depreciation on completed property, plant and equipment: electricity infrastructure previously expensed prior to 2016/2017 financial year	- (327,180)
Additions to completed property, plant and equipment: roads infrastructure previously expensed prior to 2016/2017 financial year	- 8,997,251
Additions to completed property, plant and equipment: roads infrastructure projects completed in previous financial years	- 98,395,049
Depreciation on completed property, plant and equipment: roads infrastructure previously expensed prior to 2016/2017 financial year	- (13,658,812)
Additions to completed property, plant and equipment: sanitation infrastructure previously expensed prior to 2016/2017 financial year	- 16,827,659
Additions to completed property, plant and equipment: sanitation infrastructure projects completed in previous financial years	- 32,542,093
Depreciation on completed property, plant and equipment: sanitation infrastructure previously expensed prior to 2016/2017 financial year	- (13,009,646)
Additions to completed property, plant and equipment: water infrastructure previously expensed prior to 2016/2017 financial year	- 78,923,950
Additions to completed property, plant and equipment: water infrastructure projects completed in previous financial years	- 199,769,061
Depreciation on completed property, plant and equipment: water infrastructure previously expensed prior to 2016/2017 financial year	- (62,352,131)
Work in progress projects that were funded from capital budget but did not meet recognition criteria of GRAP17	- (34,326,586)
Work in progress projects that were completed in previous years but were only componentised in the current financial year	- (337,301,000)
Increase in VAT on creditors not accrued for in the 2017/2018 financial year and prior	- 15,864
Increase in trade and other payables from exchange transactions - Invoices relating to the 2016/2017 financial year and prior	- (199,752)
Increase trade and other payables from exchange transactions - due to salaries and allowances back pay for employees	- (25,771,722)
Decrease in other receivables from non-exchange transactions	- (6,697,008)
	<b>- (51,133,306)</b>

### Nett Effect on Prior to prior year assets and liabilities:

Nett effect on Assets	- (25,161,831)
Nett effect on Liabilities	- (25,971,475)
	<b>- (51,133,306)</b>

Nett Effect on Prior to prior year assets and liabilities	- (51,133,306)
Transactions affecting the prior year deficit	- (26,166,835)
<b>Net Effect on the Statement of Financial Position</b>	<b>- (77,300,141)</b>



# City of Mbombela

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## Notes to the Audited Annual Financial Statements

Figures in Rand	2019	2018
The reported net deficit for the previous year has been adjusted by the following identified accounting errors:		(184,489,932)
Increase in Employee Related Costs due to salaries and allowances back pay for employees		(23,153,864)
Increase in Contracted Services	-	(2,972,968)
Increase in Inventory Consumed	-	(38,442)
Decrease in Revenue from Non-Exchange Transactions	-	(460,612)
Increase in Operating Leases	-	(490,273)
Increase in Operational Cost	-	(66,689)
Increase in Finance Income not accrued	-	1,016,013
<b>Nett effect:</b>		
Decrease in gains on impairment reversal	-	96,269,773
Decrease in bad debts written off	-	(96,269,773)
Increase in waste management - landfill sites	-	126,118
Increase in provisions - rehabilitation of landfill sites	-	(126,118)
<b>Net effect of adjustments on the prior year</b>		<b>(210,656,767)</b>
<b>Adjustments affecting the statement of financial position</b>		
Increase in trade and other payables - salaries and allowances back pay for employees	-	23,153,864
Increase in trade and other payables from exchange transactions - Invoices relating to the 2017/2018 financial year not accrued	-	4,279,395
Increase in VAT receivable - Nett effect of VAT on creditors not accrued for in the 2018/2019 financial year	-	(250,411)
Increase in cash and cash equivalents - Finance income not accrued during the 2017/2018 financial year	-	(1,016,013)
<b>Nett effect</b>		
Increase in gross debtors - Prior year reversal of bad debt written off	-	(96,269,773)
Increase in provision for doubtful debts - Prior year reversal of the gain on impairment loss	-	96,269,773
Increase in waste management - landfill sites	-	126,118
Increase in provisions - rehabilitation of landfill sites	-	(126,118)
<b>Total effect on statement of financial position</b>		<b>26,166,835</b>
<b>Adjustments affecting the statement of financial performance</b>		
Increase in Employee Related Costs (1.1)	-	(23,153,864)
Increase in Contracted Services (1.2)	-	(2,972,968)
Increase in Inventory Consumed (1.3)	-	(38,442)
Decrease in Revenue from Non-Exchange Transactions (1.4)	-	(460,612)
Increase in operating Leases (1.2)	-	(490,273)
Increase in Operational Costs (1.2)	-	(66,689)
Increase in Finance Income (1.4)	-	1,016,013
<b>Nett effect</b>		
Prior year reversal of bad debt written off (1.5)	-	(96,269,773)
Prior year reversal of the gain on impairment loss (1.5)	-	96,269,773
<b>Total effect on accumulated surplus</b>		<b>(26,166,835)</b>

1.1 the Municipality recalculated backpays for employees due to finalisation of the placement process as well as implementation of the task grading salary scales in order to address salary disparities.

1.2 The Municipality received invoices that related to expenditure incurred during the 2017/2018 financial year. These invoices were paid and the corresponding restatements were corrected in the prior year.

1.3 The Municipality refunded property rates to a customer.

1.4 The Municipality recognised interest on an investment relating to the 2017/2018 financial year.

1.5 The municipality reversed a portion of the bad debts written off in the 2017/2018 prior year

## City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

### Notes to the Audited Annual Financial Statements

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#### 51. Change in accounting estimates

The provision for the rehabilitation of landfill sites was revised at year end and was recognised in the surplus or deficit for the reporting period.

The effect of the change in accounting estimate on the current year's depreciation was a decrease of R 16 956 for the Tekwane Landfill site, a decrease of R 45 647 for the Barbeton Landfill site and an increase of R 1 432 879 for the Hazyview Landfill site. The change in accounting estimate was added to the cost of the related asset in the current reporting period. The total overall effect of the future periods is a cumulative net decrease in the depreciation cost of R 425 464 over the remaining useful life of the related assets. The effect of the change in future periods will be an increase in the annual depreciation expense amounting to R 16 956 totalling to R 1 373 456 over the remaining useful life of the Tekwane Landfill site, a decrease in the annual depreciation expense amounting to R 45 647 totalling to R 1 004 235 over the remaining useful life of the Barbeton landfill site and an increase in the annual depreciation expense amounting to R 1 432 879 over the remaining useful life of the Hazyview landfill site. The overall impact on the finance costs will increase by R 118 990 in the following financial year.



## City of Mbombela

(Registration number MP326)

Audited Annual Financial Statements for the year ended 30 June 2019

### Notes to the Audited Annual Financial Statements

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#### 52. Comparative figures

Certain comparative figures have been reclassified due to Municipal Standard Chart of Accounts (mSCOA) and Generally Recognised Accounting Practice (GRAP) to ensure fair presentation and consistency.

##### Statement of financial position - extract

	Comparative figures previously reported	Reclassifi- cation	After reclassification
Operating lease asset	494,472	(63,988)	430,484
Trade and other payables from exchange transaction	1,478,740,262	63,988	1,478,804,250
Non-current portion of receivables	3,006,240	786,570	3,792,810
Current portion of long-term receivables	-	758,379	758,379
Trade receivables from non-exchange transactions	87,028,344	2,179,575	89,207,919
Trade receivables from exchange transactions	97,279,374	55,080,949	152,360,323
Other receivables from exchange transactions	98,798,874	(58,805,473)	39,993,401
Non-current portion of long service award	59,955,061	(59,955,061)	-
Non-current portion of long service award	8,800,727	(8,800,727)	-
Non-current portion of provisions	153,913,254	59,955,061	213,868,315
Current portion of provisions	3,465,803	8,800,727	12,266,530
<b>Total</b>	<b>1,991,482,411</b>	<b>-</b>	<b>1,991,482,411</b>

Current portion of long-term receivables was reclassified from Long-term receivables to current assets - Current portion of Long-term Receivables.

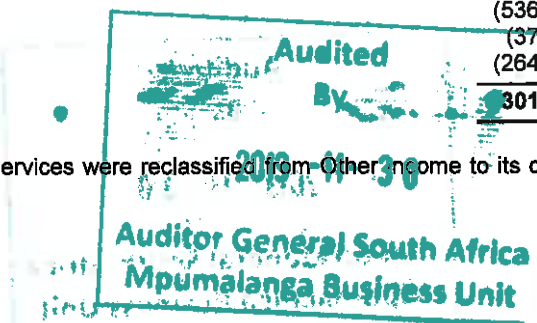
Other receivables from exchange transactions- R/D cheque's were reclassified to Trade receivables from non-exchange Transactions.

Non-current portion and current portion of long service award was reclassified to Non-current portion and current portion of provisions.

##### Statement of financial performance - extract

	Comparative figures previously reported	Reclassifi- cation	After reclassification
<b>Revenue</b>			
Sale of goods and rendering of services	-	18,345,824	18,345,824
Other income	43,606,700	(21,541,706)	22,064,994
Licences and permits	-	3,195,882	3,195,882
Service charges	1,095,011,500	(6,101,803)	1,088,909,697
<b>Expenditure</b>			
Inventory consumed	-	(46,715,433)	(46,715,433)
Contracted services	(536,082,540)	17,282,297	(518,800,243)
Transfers and subsidies paid	(37,030,512)	5,118,828	(31,911,684)
Operational costs	(264,216,839)	30,416,111	(233,800,728)
<b>Total</b>	<b>301,288,309</b>	<b>-</b>	<b>301,288,309</b>

Sale of goods and rendering of services were reclassified from Other income to its own line item on the face of Statement of Financial Performance.





## **City of Mbombela**

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### **Notes to the Audited Annual Financial Statements**

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Driver licence application fees were reclassified from other income to Licence and permits.

Trading permits were reclassified from Other income to Licence and permits.

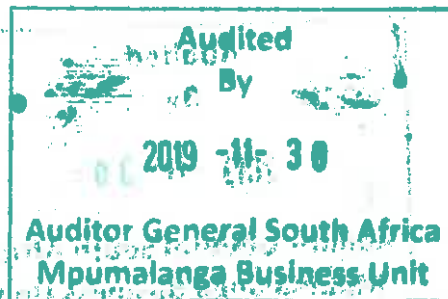
Inventory consumed were reclassified from Operational costs to its own line item on the face of Statement of Financial Performance.

Some Items within operational costs were reclassified to Contracted services.

Some items within Contracted services were reclassified to Operational costs.

Some items within Operational costs were reclassified to Transfers and subsidies.

Some items within Transfers and subsidies were reclassified to Service charges.



# City of Mbombela

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Audited Annual Financial Statements for the year ended 30 June 2019

## Notes to the Audited Annual Financial Statements

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### 53. Commitments

#### Authorised capital expenditure

##### Already contracted for

• Infrastructure - Water	248,682,972	119,261,456
• Infrastructure - Roads, Pavement and Stormwater	298,525,376	339,581,540
• Infrastructure - Electricity	81,094,553	13,581,263
• Infrastructure - Waste Water	116,860,087	42,286,872
• Buildings	14,833,179	7,094,051
• Community Facilities	7,688,581	18,069,809
	<b>767,684,748</b>	<b>539,874,991</b>

##### The expenditure will be funded as follows:

• Government grants	742,274,420	487,274,188
• Internal funding	25,410,328	51,609,178
• Service contributions	-	991,625
	<b>767,684,748</b>	<b>539,874,991</b>

#### Total capital commitments

Already contracted for	767,684,748	539,874,991
Funded	(767,684,748)	(539,874,991)
	-	-

#### Authorised operational expenditure

##### Already contracted for

• Typical Work Stream - Electrification	38,004,668	36,190,332
• Typical Work Stream - Spatial Planning	1,729,550	52,328,821
• Typical Work Stream - Meter conversion and replacement	13,631,387	3,158,860
• Typical Work Stream - Intergrated Public Transport Network	38,386,678	30,217,797
• Typical Work Stream - Water Services	7,877,546	1,241,232
• Typical Work Stream - Financial Management	9,737,120	38,102,034
• Typical Work Stream - Waste Management	50,493,328	61,047,275
• Typical Work Stream - Waste water	1,318,447	22,424,912
• Typical Work Stream - Other	41,752,735	29,930,174
	<b>202,931,459</b>	<b>274,641,437</b>

#### Total operational commitments

Already contracted for	202,931,459	274,641,437
------------------------	-------------	-------------

#### Operating leases - as lessee (expense)

##### Minimum lease payments due

- within one year	1,708,185	4,524,006
- in second to fifth year inclusive	531,468	2,239,653
	<b>2,239,653</b>	<b>6,763,659</b>

Total future minimum sublease payment expected to be received under non-cancellable sublease.

##### Operating Leases consists of the following:

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of five (5) years. No contingent rent is payable.

#### Operating leases - as lessor (income)

## City of Mbombela

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Audited Annual Financial Statements for the year ended 30 June 2019

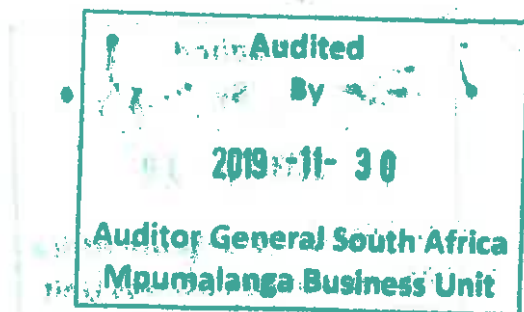
### Notes to the Audited Annual Financial Statements

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#### Minimum lease payments due

- within one year	2,561,475	2,718,044
- in second to fifth year inclusive	285,492	2,967,333
- later than five years	417,201	296,836
	<b>3,264,168</b>	<b>5,982,213</b>

Certain of the municipality's equipment and buildings is held to generate rental income. Rental of equipment and buildings is expected to generate rental yields on an ongoing basis. Lease agreements have terms from 3 to 6 years. There are no contingent rents receivable.



# City of Mbombela

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Audited Annual Financial Statements for the year ended 30 June 2019

## Notes to the Audited Annual Financial Statements

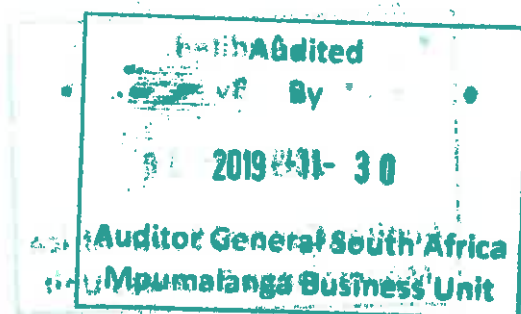
Figures in Rand

### 54. Contingencies

#### Contingent liabilities

##### Damage claims

Finishing touch 544 (PTY) LTD vs Mbombela Local Municipality. A damages claim against council through high Court Combined Summons served with case 66425/12 for the UB 40 concert to the amount of R 1 557 166.00. Council is contesting the case through appointed legal representatives, Kruger & Partners. Council requested security of costs of which the plaintiff did not comply with the request.	1,557,166	1,557,166
S Mhaule vs Mbombela Local Municipality. A claim against council has been instituted through combined summons - Magistrate's Court with a case number 996/2013 to the amount of R 19 000.00 for "verbal agreement". The case is defended through appointed legal representatives - Nkosi Attorneys & associates.	19,000	19,000
Ensemble Trading 546 LTD / Mbombela Local Municipality (MLM) - A procurement dispute claim through High Court summons emanating from a forged cession of payment agreement which was not honoured by council. Council is contesting the claim based on external legal advice. Council was granted leave to appeal to defend and an undertaking not to proceed with the summary judgment was made by the applicant's legal representatives. The case is dormant.	2,540,043	2,540,043
Department of Water Affairs / Mbombela local Municipality - Unilaterally amended agreement for the provision of free raw water for a period of 6 years within the Nsikazi / Kanyamazane area.	11,510,110	11,510,110
An application was made to National Treasury for condonation of the unauthorised expenditure on conditional grants incurred during 2009/2010 and 2010/2011 financial years. The municipality is awaiting the pending outcome of the request after all supporting evidence was submitted in collaborating of the unauthorised expenditure which was outside the respective conditional grants framework. Municipal (Infrastructure Grant: R 163 400 959 and Public Transport Infrastructure Grant: R 41 177 177)	204,578,136	204,578,136
Mahlatse David Makhubedu // SALGBC and Mbombela Local Municipality. This matter involves the alleged constructive dismissal of the employee who then referred a dispute to the Labour Court. Msikinya Attorneys are the appointed legal representatives handling the matter on behalf of the city.	552,961	552,961
Tlou Consulting (Pty) Ltd was appointed under bid 38/2013 to update and maintain the immovable asset register for a period of three years ending 30 June 2017. A dispute has arisen due to non-performance on agreed deliverables as stipulated on the service level agreement. The matter is currently under mediation.	14,052,481	14,052,481
<b>Total contingent liabilities</b>	<b>234,809,897</b>	<b>234,809,897</b>



## City of Mbombela

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### Notes to the Audited Annual Financial Statements

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#### 55. Related parties

Remuneration of management is disclosed Note 37 to these audited annual financial statements.

Remuneration of councillors and other in-kind benefits is disclosed in Note 38 and appendix C to these audited annual financial statements.

##### City of Mbombela Development Agency

The Umjindi Local Development Agency (UMLEDA) was incorporated on the 30th of October 2008. The former Umjindi Local Municipality held 100% shares of Umjindi Local Economic Development Agency (UMLEDA). City of Mbombela has at its meeting held 27 October 2016 under item A(11) resolved to approve the name change of the entity to City of Mbombela Economic Development Agency. The name change will be finalised during the 2018/2019 financial year by the new Board of Directors appointed by Council at its meeting 28 June 2018 under item B(5). The objectives and functions of the agency (entity) is to drive and champion local economic development initiatives in order to achieve job creation and poverty alleviation as per the National Development Plan and also to promote investment attraction and SMME development.

##### Mbombela Economic Development Agency

Mbombela Economic Development Agency (MEDA) was established by the Municipality as a service utility in terms of Section 86H of the Municipal Systems Act No 32 of 2000 through the passing of the by-law. The municipality has significant influence over the agency. The agency is a dormant section 21 company.

##### Mbombela Economic Development Partnership.

Council has at its meeting held 26 February 2015 under item A(4) resolved to approve the establishment of the Mbombela Economic Development Partnership. The Mbombela Economic Development Partnership was constituted as an independent not for profit company established in terms of the Companies Act, No 71 of 2008.

The overriding objective of Mbombela Economic Development Partnership is to meet the City's economic development strategic outcomes in partnership with the community in order to stimulate the economy by focusing on sector support thus creating an enabling environment that will attract investment, stimulate increased job creation, skills transfer, youth and small business development, resource resilience and liveable and safe community development.

The Mbombela Economic Development Partnership is responsible for the following core functions:

- Mobilisation and establishing partnerships for thematic programmes
- Communication, Promotion, Intelligence Distribution
- Coordination and facilitation of spatial, sector and/or project interventions
- Facilitate dialogue amongst key stakeholders

##### Municipal Housing Entity

Council has at its meeting held 29 March 2019 under item A(6) resolved for the establishment of Municipal Housing Entity. The Municipal Housing Entity will be responsible for creating and managing social housing and rental stock, and further managing community rental stock. The City of Mbombela will be the controlling entity for the Municipal Housing Entity.

##### Umsebe Accord

Umsebe Accord is a Non Profit company established to pursue public benefit objectives entrusted with the four municipalities namely, Municipio De Matola Municipality (Mozambique), Municipal Council of Mbabane (eSwatini), Nkomazi Local Municipality and the City of Mbombela Local Municipality. The objectives and functions of the company (entity) amongst others include promotion of local economic development initiatives and meeting the strategic objectives of the four cities as registered in the Memorandum of Incorporation. The Board of Directors constitutes representatives from all the four city's (municipalities) nominated to represent each municipality accordingly. Council has resolved at its meeting held 31 August 2018 under item A(4) to review and renew the Umsebe Accord Protocol for a five years period from 2018 to 2023.

#### Related party transactions

There were no grant or subsidy payments to the entities during reporting period.

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## City of Mbombela

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#### 56. Additional disclosure in terms of Municipal Finance Management Act

##### Contributions to the South African Local Government Association (SALGA)

Current year subscription	8,820,030	7,707,590
Amount paid - current year	(8,820,030)	(7,707,590)

##### Audit fees

Opening balance	644,497	267,407
Current year audit fees	8,060,570	6,144,455
Amount paid - current year	(2,793,726)	(5,499,958)
Amount paid - previous years	(585,862)	(267,407)
	<b>5,325,479</b>	<b>644,497</b>

##### PAYE, UIF and SDL

Opening balance	10,470,365	9,838,469
Current year subscription	174,200,874	132,662,937
Amount paid - current year	(160,557,062)	(122,192,572)
Amount paid - previous years	(10,470,365)	(9,838,469)
	<b>13,643,812</b>	<b>10,470,365</b>

The unpaid balance is the amount for June 2019 which was payable in July 2019.

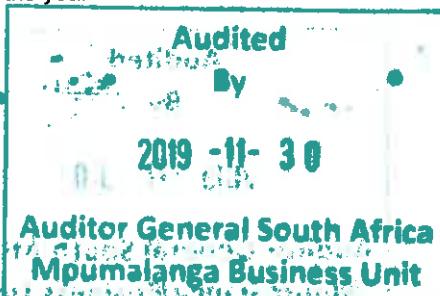
##### Pension and Medical Aid Deductions

Opening balance	16,099,089	14,219,719
Current year subscription	209,776,040	188,517,837
Amount paid - current year	(191,857,322)	(172,418,748)
Amount paid - previous years	(16,099,089)	(14,219,719)
	<b>17,918,718</b>	<b>16,099,089</b>

The unpaid balance is the amount for June 2019 which was payable in July 2019.

##### VAT

VAT receivable	114,390,127	87,311,621
Opening balance	87,094,186	86,364,407
Total amount claimed from SARS during the year	86,499,256	82,518,608
Total amount received during the year	(70,394,512)	(75,248,736)
Adjustments	(70,782,569)	34,771,541
Net VAT on accruals	81,973,766	(41,311,634)
<b>VAT receivable (as per VAT 201)</b>	<b>114,390,127</b>	<b>87,094,186</b>
VAT receivable (as per VAT 201)	24,631,375	30,142,462
Net VAT on accruals	82,240,040	20,688,155
Adjustments after 30 June	7,518,712	36,263,569
<b>VAT receivable</b>	<b>114,390,127</b>	<b>87,094,186</b>



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### Councillors' arrear consumer accounts

30 June 2019

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr A Kumba	202	694	896
Cllr ME Nsimbini	464	625	1,089
Cllr LT Mlombo	1,246	-	1,246
Cllr KG Ndlovu	205	1,145	1,350
Cllr LM Bhembe	841	1,201	2,042
Cllr NA Mokoena	2,204	-	2,204
Cllr L Ngwenyama	478	1,972	2,450
Cllr MJ Hlophe	3,526	3,312	6,838
<b>Total councillors arrear consumer accounts</b>	<b>9,166</b>	<b>8,949</b>	<b>18,115</b>

30 June 2018

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr A Khumba	99	618	717
Cllr TG Mabuza	412	-	412
Cllr BN Mdhuli	261	-	261
Cllr SP Mathonsi	604	-	604
Cllr TMJ Grove Morgan	2,071	-	2,071
Cllr EG Jansen Van Rensburg	1,004	-	1,004
Cllr JJ Mkhabela	30	1,412	1,442
Cllr NE Mkhabela	3,624	-	3,624
Cllr LN Shongwe	709	-	709
Cllr ME Jacobs	7,924	-	7,924
Cllr LT Mlombo	1,681	-	1,681
Cllr LM Bhembe	1,030	1,482	2,512
Cllr NA Mokoena	689	-	689
Cllr PV Mkhathshwa	2,096	10,278	12,374
Cllr L Ngwenyama	451	1,529	1,980
Cllr KG Ndlovu	164	393	557
Cllr MJ Hlophe	1,925	1,653	3,578
Cllr ME Nsimbini	442	5,002	5,444
<b>Total councillors arrear consumer accounts</b>	<b>25,216</b>	<b>22,367</b>	<b>47,583</b>

### Distribution losses in terms of MFMA 125(2)(d)(i)

Material losses incurred during the year under review were as follows:

#### Electricity

Electricity purchased (kWh)

Electricity sold (kWh)

Electricity losses in kWh

% loss

Electricity losses in kWh

Unit cost per kWh

Electricity losses in Rand value



747,490,811	742,582,966
619,486,000	623,447,442
128,004,811	119,135,524
<b>17.12</b>	<b>16.00</b>

128,004,811	119,135,524
0.95	0.89
<b>121,604,670</b>	<b>106,030,614</b>



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<b>Water</b>		
Water pumped and distributed (KL)	5,661,990	4,964,910
Water sold (KL)	4,236,000	3,949,471
Water distribution losses in KL	1,425,990	1,015,439
<b>% loss</b>	<b>25.20</b>	<b>20.50</b>
<b>Water distribution losses in KL</b>		
Water losses in KL	1,425,990	1,015,439
Average Cost per KL	4.88	4.66
<b>Water losses in Rand value</b>	<b>6,955,440</b>	<b>4,731,946</b>

### 57. Deviation from supply chain management regulations

In terms of regulations 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Deviations from Supply Chain Management Policy	18,874,295	25,038,692
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Refer to Appendix E for details of the Supply Chain Management deviation.

### 58. Unauthorised expenditure

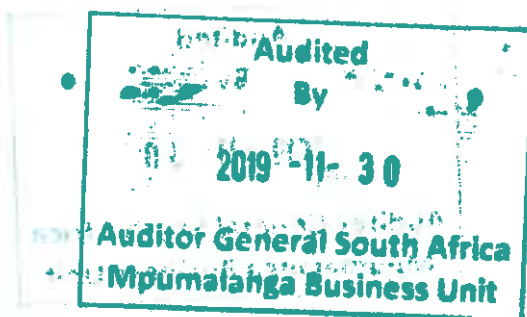
Opening balance as previously reported	725,004,712	405,397,005
	<b>725,004,712</b>	<b>405,397,005</b>
Add: Unauthorised Expenditure - current year	267,153,091	319,607,707
<b>Closing balance</b>	<b>992,157,803</b>	<b>725,004,712</b>

### 59. Fruitless and wasteful expenditure

Opening balance as previously reported	47,607,841	47,725,907
Add: Fruitless and Wasteful Expenditure - interest charged	38,041,859	28,909,554
	<b>85,649,700</b>	<b>76,635,461</b>
Less: Amounts condoned and written off	-	(29,027,620)
<b>Closing balance</b>	<b>85,649,700</b>	<b>47,607,841</b>

### 60. Irregular expenditure

Opening balance	489,842,162	1,448,774,643
Add: Irregular Expenditure - current year	137,362,607	185,016,666
Add: Irregular Expenditure identified in the current year relating to the prior year	71,572,410	1,505,316
	<b>698,777,179</b>	<b>1,635,296,625</b>
Less: Amounts written off	-	(1,145,454,463)
<b>Closing balance</b>	<b>698,777,179</b>	<b>489,842,162</b>



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### Incidents/cases identified in the current year include those listed below:

Incidents/cases identified in the current year	Disciplinary steps taken/criminal proceedings	
Appointment of service providers without following the normal SCM processes to the later	Investigation in progress	7,620,688
Continuation of the multiple extended contracts without following Section 116 of the Municipal Finance Management Act no 56 of 2003 prior to the initial contract expiry dates	Investigation in progress	78,297,575
Irregular expenditure incurred due to misplaced documents identified during the 2017/2018 financial year	Investigation in progress	16,428,637
Irregular expenditure incurred due to non-compliance with SCM regulation 32 and non-disclosure of irregular award made by the organ of state	Investigation in progress	23,899,230
Bids advertised for less than the prescribed period according to the SCM regulations	Investigation in progress	10,952,977
Approved deviation not in accordance with SCM regulation 36 requirements	Investigation in progress	8,850,885
		2,265,592
		<b>137,362,607</b>
		<b>71,572,410</b>

Management is still in the progress of determining if other SCM Reg 32 awards have similar characteristics.



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### 61. Risk management

#### Financial risk management

The Municipality has exposed to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Municipality's exposure to each of the above risks and the Municipality's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout the annual financial statements.

Council has established a risk management committee, which is responsible for reviewing the effectiveness of the institutional risk management systems, policy, procedures and practices.

#### Credit risk

Is the risk of financial loss to the Municipality if a consumer or counterparty to a financial instrument fails to meet its contractual obligations.

- Trade and other receivables from exchange transactions
- Non-current receivables from exchange transactions
- Investments
- Non-current investments
- Other non-current financial assets
- Cash and cash equivalents

#### Trade and other receivables from exchange transactions

The Municipality's trade and other receivables exposure to credit risk is influenced mainly by the individual risk characteristics of each consumer. Consumer receivables comprise of services supplied by the Municipality such as water, sanitation and rates levied. The Municipality's exposure is continuously monitored. The Municipality establishes an allowance for impairment that represents its estimate of incurred losses in respect of consumer and other receivables. No consumer or other receivables have been pledged as security. Certain consumer and other receivables that were past due have been defaulted on by counterparties, thus legal action has been instituted against these parties in an attempt to recover this debt, where debt is irrecoverable it has been written off. No conditions or terms of the consumer and other receivables have been re-negotiated with counterparties

#### Investments

It is the Municipality's practice to limit its credit risk by only investing in registered banks in terms of the Banks Act, 94 of 1990. Given the high credit ratings of these financial institutions the Municipality does not expect any counterparty to fail to meet its obligation.

#### Cash and cash equivalents

The Municipality limits its credit risk by only banking with registered financial institutions in terms of the Banks Act, 94 of 1990 operating in South Africa.

Maximum exposure to credit risk at reporting date for each class of financial assets was:

Cash and cash equivalents	126,050,715	93,902,792
Investments	100	18,397,643
Trade receivables from exchange transactions	166,097,387	152,360,322
Receivables from non-exchange transactions	117,200,646	89,207,919
Long-term receivables	2,531,548	3,792,810
Deposits	5,186,819	4,755,819
Other receivables from exchange transactions	31,875,501	33,296,393
	<b>448,942,716</b>	<b>395,713,698</b>



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### Impairment disclosure for current financial assets carried at amortised costs

All of the Municipality's financial assets have been reviewed for indicators of impairment. Refer to Note 7 for the impairment reconciliation of consumer and other receivables.

Market risk is the risk that changes in the market prices, such as interest rates and equity prices will affect the Municipality's income or the value of its holdings of financial instruments.

### Interest rate risk

The Municipality limits its interest rate risk on financial liabilities by ensuring that reasonable fixed interest rates are negotiated on long term borrowings and are therefore not linked to the interest bank repurchase rate. The municipality has only four interest bearing borrowings as indicated in Appendix A.

At year end, financial instruments exposed to interest rate risk were as follows:

- Investments
- Borrowings

### Fair value sensitivity analysis on fixed rate instruments

The Municipality does not account for any fixed rate financial assets and liabilities at fair value through surplus and deficit, therefore a change in interest rates at reporting date will not affect surplus for the year.

### Liquidity risk

Liquidity risk is the risk that the Municipality will not be able to meet its financial obligations as they fall due. The Municipality's approach to managing liquidity is to ensure as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unauthorised expenditure. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored. The Municipality has not defaulted on external loans, payables and lease commitment payments being either interest or capital and no re-negotiation of terms were made on any of these instruments.

The table below analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

#### **Up to 1 Year**

Current portion of borrowings	53,200,621	58,133,948
Other financial liabilities	3,853,005	4,053,040
Trade and other payables from exchange transactions	1,823,300,990	1,532,298,438
Other payables from non-exchange transactions	59,409,902	11,329,165
Consumer deposits	40,282,191	36,920,033
Finance lease obligation	2,818,416	4,639,134

#### **1 - 5 years**

Non - current portion of borrowings	96,491,388	97,005,803
Finance lease obligation	-	876,609

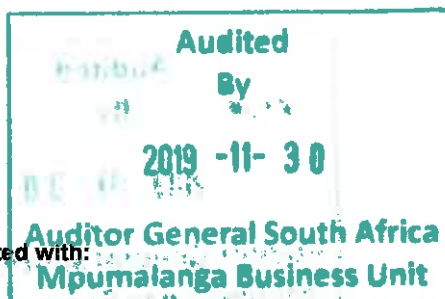
#### **>5 years**

Borrowings	116,686,071	145,207,399
	<b>2,196,042,584</b>	<b>1,890,463,569</b>

### **Concentration of credit risk**

The concentration of the credit risk associated with:

Borrowings	12 %	16 %
Other financial liabilities	5 %	3 %
Trade and other payables from exchange transactions	83 %	81 %



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### 62. Public-Private Partnership - Concession Agreement

The former Mbombela Local Municipality signed a 30 year concession agreement in April 1999 with SembCorp Silulumanzi (Proprietary) Limited previously known as the Greater Nelspruit Utility Company (GNUC) for provision of water and sanitation services as well as servicing the growing expectations of the communities on behalf of the municipality. The concession agreement became effective from 1 November 1999 and is subjected to review every five years through the supplementary agreements. The concession areas boundaries are the municipal boundaries of the previous Nelspruit Transitional Council and any extension of services outside the developed areas are dealt with on a case by case basis.

Supplementary agreement number four (4) was concluded during 2014/2015 financial year and it became effective 1 November 2014 until 31 October 2019 in accordance with five year period review process.

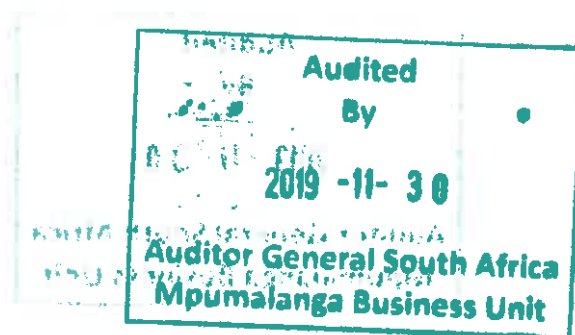
The Concessionaire is obligated to ensure that the communities within the concession area have access to a 24 - hour water supply to all formal households and to use best efforts to improve the number of households in informal areas with 24 - hour water supply. It is also a requirement that the Concessionaire must provide portable water and effluent quality in compliance with the National Water Quality Standards.

The concessionaire leases and operates water services delivery assets within the concession area at a rental of R 189 666.25 per month for the remainder of the term of the Concession agreement. The assets are controlled by the Municipality and are recorded in the assets register of the Municipality as Property, Plant and Equipment. The Concessionaire recognises the right to use those assets as intangible assets in accordance with IFRIC 12. The operating lease commitments for the leased assets has been disclosed in Note 53 to these financial statements.

The concession agreements provides for the concessionaire to maintain, refurbish, rehabilitate and improve the assets within its operations and collection of water and sanitation revenue within the Concession area. The water and sanitation tariffs for the Concessionaire are approved by Council for implementation in terms of section 24 of the Municipal Finance Management Act No.56 of 2003. The concessionaire acts as a project manager for construction of new infrastructure within the concession area which is funded by the Municipality. The Concessionaire is obligated to ensure that the assets are adequately maintained each year.

The concession agreement may be terminated by either party with effect from any date after the natural end of the concession contract in the year 2029 or the date of termination of the concession agreement, whichever is earlier, provided that at least 24 months prior written notice has been given by the party intending to cancel the concession agreement to the other party.

All assets operated by the Concessionaire will be transferred back to the Municipality in a good condition on termination of the concession agreement.



## City of Mbombela

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#### 63. Financial Sustainability and Liquidity Management

The City has been unable to meet all its current obligations by paying service providers within 30 days on receipt of invoice or statement in accordance with Section 65 of the Municipal Finance Management Act No 56 of 2003. Interest charged by suppliers have been disclosed as fruitless and wasteful expenditure to these financial statements.

The City has incurred a net loss of R 199 583 167 (2018: R 210 656 766) on the Statement of financial performance during the reporting period ended 30 June 2019. The net loss takes cognizance of other non-cash items which include depreciation and debt impairment. Liquidity management objectives have not been entirely met as the cash coverage ratio was less than a month which is below the norm of three months and the current ratio was fragile as the current liabilities exceeded the current assets by R 1 513 885 585 (2018: R 1 335 923 723) with an outcome assessment of less than one. The municipality was not able to maintain 100 per cent level of cash backed reserves during the reporting period. A material amount of receivables have been impaired due to non-collectability. Payment arrangements have been with major suppliers given the financial constraints of the City.

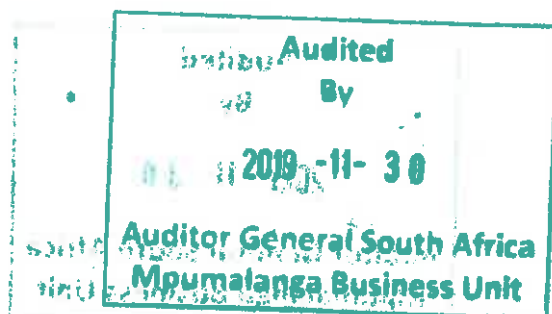
Council has at its meeting approved the liquidity policy at its meeting held 31 May 2017 under item A(3) (c) for implementation. The liquidity policy seeks to give guidance for maintaining sufficient liquidity intensities to meet the liabilities when due under both normal and stressed conditions without incurring any prohibited expenditure. Furthermore, the Revenue Enhancement Strategy for the City was approved by Council at the same sitting under item A(4).

The City has also developed Supply Chain Management sourcing strategy which was approved by Council at the meeting held 28 June 2017 under item A(4). One of the objectives of the sourcing strategy is to regulate prices on certain commodities in order to ensure that goods and services are procured in a most economic manner.

The City requested intervention from National Treasury to conduct the Municipal Financial Management Capability Maturity assessment for which the outcome was tabled before Council at its meeting held 28 June 2018 under item A(1). The Municipal Financial Management Capability Maturity Model assessed the maturity level of the municipality on various aspects of internal controls, policies and procedures and compliance with Legislation. An action plan to address the weaknesses identified through the Municipal Finance Management Capability Maturity Assessment has been developed and it is currently being implemented.

Furthermore, National Treasury was requested to assist with the development of a Financial Recovery Plan. The plan was approved by Council at its meeting held 28 June 2018 under item A(3). The City has been implementing the approved Financial Recovery Plan during the reporting period and Council has been monitoring the implementation thereof on a quarterly basis.

The municipality continues to aggressively implement the financial interventions and revenue collection strategies in order to improve financial sustainability and liquidity management objectives.





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### 64. Budget differences

Material differences between budget and actual amounts greater than 10% based on the Table A1 of the budget schedules in accordance with the Municipal Budget and Reporting regulations No.32141

#### Statement of Financial Performance:

##### Revenue:

#### 1. Sale of Goods and Rendering of Services

The variance is due to the underperformance of the amendment or rezoning fees applied in accordance with the applicable town planning scheme.

#### 2. Rental of Facilities and Equipment

The variance is attributable to the implementation of the stadium management model adopted by Council at its meeting held 30 November 2017 under item (7). The management model seeks to achieve financial sustainability of the Stadia facility over the long term by unlocking various revenue streams within the stadium precinct.

#### 3. Agency Fees

The variance is as a result of the financial accounting and classification basis differences. The total amount (gross inflows) collected on behalf of the (principal) Department of Community Safety, Security and Liaison is budgeted for in full however for financial reporting purposes, the gross inflows of economic benefits or service potential does not result in an increase in net assets for the City. The agency commission received or receivable must be recognised as revenue in accordance with the standards of Generally Recognised Accounting Practice (GRAP) 9 on agent and principal relationship.

#### 4. Other Income

The variance is attributable to the performance of the bad debts recovered as well as collection charges revenue items. This performance emanates from the implementation of debt collection measures by the City's appointed debt collectors.

Council has approved the writing off of irrecoverable debt for the 2018/2019 financial year at its meeting held 31 May 2019 under item A(5).

#### 5. Finance Income

The City continued to experience cash flow constraints during the reporting period. Although financial planning and cash flow management was undertaken hostilely during the year, the City made minimal investments to generate interest income.

The City is implementing the financial recovery plan as part of the financial turnaround strategy which was tabled and approved by Council at its meeting held 28 June 2018 under item A(3). Council and other internal and external stakeholders exercise oversight responsibility on the implementation of the approved Financial Recovery Plan on a quarterly basis.

#### 6. Fines, Penalties and Forfeits

The variance is mainly due to the implementation of the approved revenue enhancement strategy through roadblocks and the execution of Warrant of Arrest through the Automated Number Plate Recognition Bus.

The City has also taken measures to increase the number of traffic officers within the jurisdiction of Mbombela with the objective of ensuring that all road users use roads in an orderly and safe manner.

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Mpumalanga Business Unit



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#### Expenditure:

##### **7. Inventory Consumed**

The variance is attributable to the acquisition and utilisation of materials and supplies for the maintenance and operations of electrical assets. The City has developed maintenance plans for most of the assets in order to ensure adequate spending on repairs and maintenance.

##### **8. Finance Costs**

The major contributing cost driver is the interest charged by creditors for payments made after 30 days on receipt of the invoice or statement which has been disclosed in the notes to these annual financial statements as Fruitless and Wasteful Expenditure. The late payment of creditors is mainly due to the severe cash flow constraints faced by the City. The City is implementing the approved Financial Recovery Plan in order to achieve the liquidity management objectives and improve financial sustainability.

##### **9. Operating leases**

The variance is attributable to the tools of trade offered to full-time Executive Mayors as outlined in the Determination of Upper Limits of salaries, allowances and benefits of different members of municipal council.

##### **10. Bad Debts Written Off**

The variance is attributable to the differences between budgeting and financial accounting. The bad debts are written off against the provision which is made each year based on the collection rate projection. The implementation of the Municipal Standard Chart of Accounts requires that the actual debt written off be disclosed as part of the operating expenses within the Statement of Financial Performance. The debt impairment expense is part of the gains and losses which is disclosed as impairment loss or gains.

Council has approved the writing off, of irrecoverable debt for the 2018/2019 financial year at its meeting held 31 May 2019 under item A(5).

##### **11. Debt Impairment**

The variance is as a result of the basis differences. The difference is due to the provision of free basic water (first 6 kilolitres) to all communities as well as the provision of water to indigent consumers. The City also provides water to disadvantaged communities that have no access to water through other intervention measures. The 6kl free basic water within the concession area is the major cost driver for the actual expenditure incurred.

##### **12. Transfers and Subsidies**

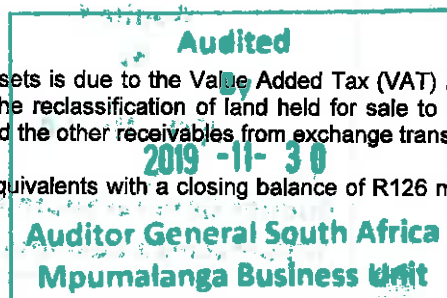
The variance is as a result of the basis differences. The difference is due to the provision of free basic water (first 6 kilolitres) to all communities as well as the provision of water to indigent consumers. The City also provides water to disadvantaged communities that have no access to water through other intervention measures. The 6kl free basic water within the concession area is the major cost driver for the actual expenditure incurred.

#### Statement of Financial Position:

##### **13. Current Assets**

The insignificant variance on the current assets is due to the Value Added Tax (VAT) receivable amount at year end from South African Revenue Services (SARS), the reclassification of land held for sale to Property, Plant and Equipment that was previously classified under inventory and the other receivables from exchange transactions.

The City has managed its cash and cash equivalents with a closing balance of R126 million as compared to the budgeted amount of R95 million.



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#### 14. Current Liabilities

The variance is as a result of the increased trade and other payables from exchange transactions, trade and other payables from non-exchange transactions, unspent conditional grants and consumer deposits. The City is currently implementing the approved financial recovery plan approved by Council at its meeting held 28 June 2018 under item A(3) and the cost curtailment strategy. The implementation of the approved financial recovery plan, approved revenue enhancement strategy and the cost curtailment strategy will enable the City to build cash backed reserves and be able to meet its financial and liquidity management objectives.

Council and other internal and external stakeholders exercise oversight responsibility on the implementation of the approved Financial Recovery Plan on a quarterly basis.

#### 15. Non-Current Liabilities

The variance is mainly attributable to the non-current portion of the provisions which consists on the provision for the rehabilitation of the Landfill sites and the provision for the Long Service Awards determined in accordance with the Standards of GRAP 19 and 25 respectively.

#### Cash Flow Statement:

##### 16. Net cash flows from operating activities

The variance is due to the under collection of other income items which includes traffic fines, rental of facilities and equipment, revenue collected from bad debts recovered and service contribution revenue. The approved revenue enhancement strategy includes various measures to unlock and enhance the revenue generation and collection for the City.

##### 17. Net cash flows used in investing activities

The variance is attributable to the increase in non-current receivables as a result of the write off of irrecoverable debts approved by Council at its meeting held 31 May 2019 under item A(5).

##### 18. Net cash flows from financing activities

The variance is due to the repayment of the borrowings during the reporting financial year.

#### 65. Events after the reporting date

##### Unspent conditional Grants

A total balance of unspent conditional grants amounting to R 101.8 million was not approved for the roll over by National Treasury and the amount will be reverted back to the National Revenue Fund by setting off the equitable Share allocation trench for December 2019. Details of the individual grants is disclosed in note 34 to these financial statements.



Unaudited Schedule of Interest bearing borrowings as at 30 June 2019

Loan Number	Redeemable	Balance at 30 June 2018	Received during the period	Redeemed written off during the period	Balance at 30 June 2019
		Rand	Rand	Rand	Rand
<b>Loan Stock</b>					
Stock Loan@ 11.60%	1976/2001	3,000	-	-	3,000
		<b>3,000</b>	-	-	<b>3,000</b>
<b>Annuity loans</b>					
DBSA R21 600 000 @ base rate of R203 plus the Margin (10.74%)	2014/2019	10,279,209	-	10,279,209	-
DBSA R138 600 000 @ base rate of R186 plus the Margin (11.73%)	2014/2029	136,847,743	20,503,436	23,553,291	133,797,888
DBSA R200 000 000 @ 12.62%	2010/2030	147,045,286	6,680,444	25,570,005	128,155,725
STD R25 000 000 @ 10.50%	2005/2020	5,746,975	-	1,322,548	4,424,427
		<b>299,919,213</b>	<b>27,183,880</b>	<b>60,725,053</b>	<b>266,378,040</b>
<b>Annuity loans</b>					
DBSA R1 417 073.38 @ 15%	1999/2019	212,297	-	212,297	-
DBSA R915 450.31 @ 16.50%	1999/2019	212,678	-	212,678	-
		<b>424,975</b>	-	<b>424,975</b>	-
Total external loans		<b>300,347,188</b>	<b>27,183,880</b>	<b>61,150,028</b>	<b>266,381,040</b>

**City of Mbombela**  
**City of Mbombela**  
**Appendix B**

**Unaudited Analysis of property, plant and equipment as at 30 June 2019**  
**Accumulated depreciation**

**Cost**

	Opening Balance		Additions		Disposals		Transfers		Revaluations		Changes in accounting estimates		Closing Balance		Opening Balance		Disposals		Transfers		Depreciation		Impairment loss		Closing Balance		Carrying value	
	Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand	
<b>Land and buildings</b>																												
Land	637,667,026		-		-		(6,247,706)		-		-		631,419,320		-		-		-		-		-		-		631,419,320	
Buildings	1,496,733,025	1,511,094			-		18,144,974		-		-		1,517,389,093	(611,624,964)	-		-		-		(57,997,937)		-		(669,622,901)		847,766,192	
	<b>2,134,400,051</b>	<b>1,511,094</b>					<b>12,897,268</b>						<b>2,148,808,413</b>	<b>(611,624,964)</b>							<b>(57,997,937)</b>				<b>(669,622,901)</b>		<b>1,479,185,512</b>	
<b>Infrastructure</b>																												
Roads, Pavements, Bridges & Storm water	3,119,350,209	105,435,816			-		68,952,365		-		-		3,293,738,390	(1,496,717,136)	-		-		-		(238,362,649)		-		(1,735,079,786)		1,558,658,605	
Water	2,619,321,168	21,777,426			-		23,292,375		-		-		2,664,390,969	(886,863,760)	-		-		-		(74,533,524)		-		(961,397,284)		1,702,993,685	
Electricity	1,260,443,372	5,786,728			-		3,089,389		-		-		1,269,329,489	(663,185,241)	-		-		-		(54,618,456)		-		(717,803,897)		551,525,792	
Waste management	54,654,196				-		-		-		(2,797,073)		51,857,125	(10,435,061)	-		-		-		(1,057,117)		-		(11,492,178)		40,364,947	
Waste water	1,106,113,136	3,396,061			-		10,855,591		-		-		1,120,364,908	(434,320,696)	-		-		-		(39,959,146)		-		(474,279,842)		646,084,966	
	<b>8,159,882,083</b>	<b>136,396,051</b>					<b>106,199,720</b>						<b>8,399,680,781</b>	<b>(3,491,621,894)</b>							<b>(408,630,892)</b>				<b>(3,900,052,786)</b>		<b>4,499,627,995</b>	
<b>Community Assets</b>																												
Libraries	21,777,245	11,148,491			-		-		-		-		32,925,736	(4,310,648)	-		-		-		(885,329)		-		(5,195,977)		27,729,759	
	<b>21,777,245</b>	<b>11,148,491</b>											<b>32,925,736</b>	<b>(4,310,648)</b>							<b>(885,329)</b>				<b>(5,195,977)</b>		<b>27,729,759</b>	

Unaudited Analysis of property, plant and equipment as at 30 June 2019  
Accumulated depreciation

	Cost		Additions	Disposals	Transfers	Revaluations	Changes in accounting estimates	Closing Balance	Opening Balance	Disposals	Transfers	Depreciation	Impairment loss	Closing Balance	Carrying value
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
<b>Heritage assets</b>															
Other	2,537,117	-	-	-	-	-	-	2,537,117	(235,147)	-	-	-	-	(235,147)	2,301,970
	<b>2,537,117</b>							<b>2,537,117</b>	<b>(235,147)</b>					<b>(235,147)</b>	<b>2,301,970</b>
<b>Other assets</b>															
Transport assets	188,683,928	15,469,832	-	-	-	-	(1,089,897)	203,053,863	(147,432,979)	820,640	-	(19,016,574)	-	(165,628,913)	37,434,950
Machinery and equipment	44,972,722	1,960,623	-	-	-	-	46,933,345	46,933,345	(18,293,141)	-	-	(4,755,672)	-	(23,048,813)	23,884,532
Computer equipment	41,363,337	1,165,717	-	-	-	-	42,529,054	42,529,054	(21,257,838)	206,234	-	(4,161,161)	-	(25,212,765)	16,835,100
Furniture and equipment	71,479,057	2,510,088	-	-	-	-	73,989,145	73,989,145	(37,431,590)	121	-	(4,847,564)	-	(42,279,053)	31,702,092
Leased assets	8,069,824	-	-	-	-	-	8,069,824	8,069,824	(3,646,156)	-	-	(3,032,667)	-	(6,678,823)	1,191,001
	<b>364,583,868</b>	<b>24,108,260</b>					<b>(1,499,066)</b>	<b>374,196,082</b>	<b>(228,281,704)</b>	<b>1,026,996</b>		<b>(36,813,678)</b>		<b>(263,048,387)</b>	<b>111,147,675</b>

**City of Mbombela**  
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**Appendix B**

**Unaudited Analysis of property, plant and equipment as at 30 June 2019**  
**Accumulated depreciation**

	Opening Balance		Additions		Disposals		Transfers		Revaluations		Changes in accounting estimates		Closing Balance		Opening Balance		Disposals		Transfers		Depreciation		Impairment loss		Closing Balance		Carrying value	
	Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand	
<b>Total property plant and equipment</b>																												
Land and buildings	2,134,400,051		1,511,094				12,897,268						2,148,808,413		(611,624,964)						(57,997,937)				(669,622,901)		1,479,185,512	
Infrastructure	8,159,892,083		136,396,051				106,199,720				(2,797,073)		8,399,680,781		(3,491,521,894)						(408,530,892)				(3,900,052,766)		4,499,627,995	
Community Assets	21,777,245		11,148,491									32,925,736		(4,310,648)							(886,328)				(5,195,977)		27,729,759	
Heritage assets	2,537,117											2,537,117		(235,147)							(235,147)				(235,147)		2,301,970	
Other assets	354,588,868		21,105,260								(1,499,066)		374,196,062		(228,261,704)		1,026,995				(35,813,678)				(263,048,387)		111,147,675	
	0,873,185,364		170,161,896				119,096,988				(4,296,139)		0,958,146,109		(4,335,954,357)		1,026,995				(503,227,836)				(4,838,155,198)		5,119,992,911	
<b>Construction work in progress</b>																												
Infrastructure	841,381,210		355,327,696				(125,344,694)						1,071,344,212														1,071,344,212	
	841,381,210		355,327,696				(125,344,694)						1,071,344,212														1,071,344,212	
<b>Intangible assets</b>																												
Computers - software & other	18,899,527		620,056										17,519,583		(5,385,419)						(1,240,213)				(6,625,632)		10,893,951	
Licence & servitudes	5,389,698											5,389,698		(777,805)											(777,805)		4,611,893	
	22,289,225		620,056										22,909,281		(6,163,224)						(1,240,213)				(7,403,437)		15,506,844	
<b>Investment properties</b>																												
Investment property	355,087,733						127,493						355,215,226		(22,656,853)						(2,112,005)				(24,768,858)		330,446,368	
	355,087,733						127,493						355,215,226		(22,656,853)						(2,112,005)				(24,768,858)		330,446,368	
<b>Total</b>																												
Land and buildings	2,134,400,051		1,511,094				12,897,268						2,148,808,413		(611,624,964)						(57,997,937)				(669,622,901)		1,479,185,512	
Infrastructure	8,159,892,083		136,396,051				106,199,720						8,399,680,781		(3,491,521,894)						(408,530,892)				(3,900,052,766)		4,499,627,995	
Community Assets	21,777,245		11,148,491									32,925,736		(4,310,648)							(886,328)				(5,195,977)		27,729,759	
Heritage assets	2,537,117											2,537,117		(235,147)							(235,147)				(235,147)		2,301,970	
Other assets	354,588,868		21,105,260									374,196,062		(228,261,704)		1,026,995					(35,813,678)				(263,048,387)		111,147,675	
Construction work in progress	841,381,210		355,327,696				(125,344,694)						1,071,344,212								(1,240,213)				(7,403,437)		1,071,344,212	
Intangible assets	22,289,225		620,056										22,909,281		(6,163,224)										(7,403,437)		15,506,844	
Investment properties	355,087,733						127,493						355,215,226		(22,656,853)						(2,112,005)				(24,768,858)		330,446,368	
	1,891,923,532		526,109,648				(6,120,213)						2,407,616,828		(4,364,774,434)		1,026,995				(506,580,054)				(4,870,327,463)		7,537,289,335	

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**Unaudited Analysis of property, plant and equipment as at 30 June 2018**  
**Cost**  
**Accumulated depreciation**

	Opening Balance		Additions		Disposals		Transfers		Revaluations		Changes in accounting estimates		Closing Balance		Opening Balance		Disposals		Transfers		Depreciation		Impairment loss		Closing Balance		Carrying value	
	Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand	
<b>Land and buildings</b>																												
Land	641,382,747		-		-		(3,715,721)		-		-		637,667,026		649,166,537		-		-		(62,458,327)		-		(611,624,964)		637,667,026	
Buildings	1,496,733,025		-		-		-		-		-		1,496,733,025		(549,166,537)		-		-		(62,458,327)		-		(611,624,964)		885,108,061	
	<b>2,138,115,772</b>		<b>-</b>		<b>-</b>		<b>(3,715,721)</b>		<b>-</b>		<b>-</b>		<b>2,134,400,051</b>		<b>(649,166,537)</b>		<b>-</b>		<b>-</b>		<b>(62,458,327)</b>		<b>-</b>		<b>(611,624,964)</b>		<b>1,522,775,087</b>	
<b>Infrastructure</b>																												
Roads, Pavements, Bridges & Storm	3,031,763,378		36,256,136		(824,129)		52,154,824		-		-		3,119,350,209		1,276,011,439		798,140		-		(221,503,837)		-		1,496,717,136		1,622,633,073	
Water	2,516,831,028		38,271,607		-		64,218,533		-		-		2,619,321,168		(816,180,887)		-		-		(70,673,079)		-		(886,863,760)		1,732,457,408	
Electricity	1,232,607,498		19,551,288		(12,057)		8,296,843		-		-		1,260,443,372		(598,502,940)		12,035		-		(64,694,396)		-		(663,185,241)		597,258,131	
Waste management	51,270,023		-		-		-		-		3,384,175		54,654,198		(9,425,061)		-		-		(1,010,000)		-		(10,435,061)		44,219,137	
Water water	1,106,113,136		-		-		-		-		-		1,106,113,136		(391,108,820)		-		-		(43,211,876)		-		(434,320,696)		671,792,440	
	<b>7,938,545,063</b>		<b>94,079,031</b>		<b>(838,186)</b>		<b>124,670,000</b>		<b>-</b>		<b>3,384,175</b>		<b>8,169,862,063</b>		<b>(3,091,238,947)</b>		<b>810,176</b>		<b>-</b>		<b>(401,693,122)</b>		<b>-</b>		<b>(3,491,621,894)</b>		<b>4,668,360,189</b>	
<b>Community Assets</b>																												
Libraries	21,777,245		-		-		-		-		-		21,777,245		(3,644,070)		-		-		(566,578)		-		(4,310,648)		17,466,597	
	<b>21,777,245</b>		<b>-</b>		<b>-</b>		<b>-</b>		<b>-</b>		<b>-</b>		<b>21,777,245</b>		<b>(3,644,070)</b>		<b>-</b>		<b>-</b>		<b>(566,578)</b>		<b>-</b>		<b>(4,310,648)</b>		<b>17,466,597</b>	



City of Mbombela  
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Appendix B

Unaudited Analysis of property, plant and equipment as at 30 June 2018  
Accumulated depreciation

Cost

	Opening Balance		Additions		Disposals		Transfers		Revaluations		Changes in accounting estimates		Closing Balance		Opening Balance		Disposals		Transfers		Depreciation		Impairment loss		Closing Balance		Carrying value	
	Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand	
<b>Heritage assets</b>																												
Other	2,537,117		-		-		-		-		-		2,537,117		(235,147)		-		-		-		-		(235,147)		2,301,970	
	<b>2,537,117</b>		<b>-</b>		<b>-</b>		<b>-</b>		<b>-</b>		<b>-</b>		<b>2,537,117</b>		<b>(235,147)</b>		<b>-</b>		<b>-</b>		<b>-</b>		<b>-</b>		<b>(235,147)</b>		<b>2,301,970</b>	
<b>Specialised vehicles</b>																												
<b>Other assets</b>																												
Transport assets	189,901,579		5,297,013		(6,514,664)		-		-		-		188,683,928		(134,340,632)		5,604,042		-		(18,696,389)		-		(147,432,979)		41,250,949	
Machinery and equipment	43,773,602		1,415,114		(215,984)		-		-		-		44,972,722		(13,982,627)		172,274		-		(4,472,788)		-		(18,293,141)		28,679,581	
Computer equipment	46,505,204		311,761		(5,834,628)		-		-		-		41,383,337		(22,284,920)		5,711,566		-		(4,684,604)		-		(31,257,838)		20,125,499	
Furniture and equipment	71,514,677		782,589		(818,209)		-		-		-		71,479,057		(33,280,627)		626,822		-		(4,766,785)		-		(37,431,590)		34,047,467	
Leased assets	6,764,920		2,031,317		(726,413)		-		-		-		8,069,824		(1,210,022)		120,295		-		(2,766,429)		-		(3,846,166)		4,223,668	
	<b>358,860,992</b>		<b>9,837,794</b>		<b>(14,109,908)</b>		<b>-</b>		<b>-</b>		<b>-</b>		<b>354,688,968</b>		<b>(205,118,828)</b>		<b>12,234,119</b>		<b>-</b>		<b>(35,376,996)</b>		<b>-</b>		<b>(228,261,704)</b>		<b>126,327,164</b>	

**City of Mbombela**  
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**Unaudited Analysis of property, plant and equipment as at 30 June 2018**  
**Cost**  
**Accumulated depreciation**

	Opening Balance	Additions	Disposals	Transfers	Revaluations	Changes in accounting estimates	Closing Balance	Opening Balance	Disposals	Transfers	Depreciation	Impairment loss	Closing Balance	Carrying value
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
<b>Total property plant and equipment</b>														
Land and buildings	2,138,115,772	94,079,031	(836,186)	(3,715,721)	-	3,384,175	2,134,400,951	(549,186,637)	810,175	-	(62,458,327)	-	(611,624,964)	1,522,775,087
Infrastructure	7,938,595,063	21,777,245	-	124,670,000	-	-	8,169,882,983	3,091,238,947	-	-	(401,093,122)	-	(3,491,521,894)	4,668,360,189
Community Assets	21,777,245	-	-	-	-	-	21,777,245	(3,644,070)	-	-	(666,578)	-	(4,310,648)	17,466,597
Heritage assets	2,537,117	-	-	-	-	-	2,537,117	(235,147)	-	-	-	-	(235,147)	2,301,970
Other assets	358,860,982	9,837,794	(14,103,908)	-	-	-	354,598,868	(205,118,828)	12,234,119	-	(35,376,895)	-	(228,261,704)	126,327,164
	<b>0,459,876,179</b>	<b>103,916,825</b>	<b>(14,946,094)</b>	<b>120,954,279</b>	<b>-</b>	<b>3,384,175</b>	<b>0,673,185,364</b>	<b>(3,849,403,629)</b>	<b>13,044,284</b>	<b>-</b>	<b>(499,595,022)</b>	<b>-</b>	<b>(4,335,964,367)</b>	<b>6,337,231,007</b>
<b>Construction work in progress</b>														
Infrastructure	588,189,093	377,842,118	-	(124,670,000)	-	-	841,361,211	-	-	-	-	-	-	841,361,211
	<b>588,189,093</b>	<b>377,842,118</b>	<b>-</b>	<b>(124,670,000)</b>	<b>-</b>	<b>-</b>	<b>841,361,211</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>841,361,211</b>
<b>Intangible assets</b>														
Computers - software & other	15,675,126	1,224,401	-	-	-	-	16,899,527	(4,217,967)	-	-	(1,167,452)	-	(5,385,419)	11,514,108
Licence & servitudes	5,588,637	21,061	-	-	-	-	5,589,598	(777,905)	-	-	-	-	(777,905)	4,811,693
	<b>21,043,763</b>	<b>1,245,462</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22,289,225</b>	<b>(4,995,772)</b>	<b>-</b>	<b>-</b>	<b>(1,167,452)</b>	<b>-</b>	<b>(6,163,224)</b>	<b>16,126,001</b>
<b>Investment properties</b>														
Investment property	357,261,422	-	(2,604,000)	430,311	-	-	355,087,733	(20,544,847)	-	-	(2,112,008)	-	(22,656,853)	332,430,880
	<b>357,261,422</b>	<b>-</b>	<b>(2,604,000)</b>	<b>430,311</b>	<b>-</b>	<b>-</b>	<b>355,087,733</b>	<b>(20,544,847)</b>	<b>-</b>	<b>-</b>	<b>(2,112,008)</b>	<b>-</b>	<b>(22,656,853)</b>	<b>332,430,880</b>
<b>Total</b>														
Land and buildings	2,138,115,772	94,079,031	(836,186)	(3,715,721)	-	3,384,175	2,134,400,951	(549,186,637)	810,175	-	(62,458,327)	-	(611,624,964)	1,522,775,087
Infrastructure	7,938,595,063	21,777,245	-	124,670,000	-	-	8,169,882,983	3,091,238,947	-	-	(401,093,122)	-	(3,491,521,894)	4,668,360,189
Community Assets	21,777,245	-	-	-	-	-	21,777,245	(3,644,070)	-	-	(666,578)	-	(4,310,648)	17,466,597
Heritage assets	2,537,117	-	-	-	-	-	2,537,117	(235,147)	-	-	-	-	(235,147)	2,301,970
Other assets	358,860,982	9,837,794	(14,103,908)	-	-	-	354,598,868	(205,118,828)	12,234,119	-	(35,376,895)	-	(228,261,704)	126,327,164
Construction work in progress	588,189,093	377,842,118	-	(124,670,000)	-	-	841,361,211	-	-	-	-	-	-	841,361,211
Intangible assets	21,043,763	1,245,462	-	-	-	-	22,289,225	(4,995,772)	-	-	(1,167,452)	-	(6,163,224)	16,126,001
Investment properties	357,261,422	-	(2,604,000)	430,311	-	-	355,087,733	(20,544,847)	-	-	(2,112,008)	-	(22,656,853)	332,430,880
	<b>1,428,370,457</b>	<b>483,004,405</b>	<b>(17,560,094)</b>	<b>(3,285,410)</b>	<b>-</b>	<b>3,384,175</b>	<b>1,891,923,533</b>	<b>(3,874,944,248)</b>	<b>13,044,284</b>	<b>-</b>	<b>(602,874,480)</b>	<b>-</b>	<b>(4,364,774,434)</b>	<b>7,527,145,099</b>

